





6/14/86

FROM: D N WALTERS x 8652  
DATE: 11 August 1986

RA

ALL UNDER SECRETARIES

cc: PS/Chancellor - 14/2  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Miss Sinclair  
Mr Pratt o.r  
Mr Dyer

~~2 Rev. Depts~~

1987 FINANCE BILL: STARTERS

In line with normal practice, it is intended that the first edition of the starters list for the 1987 Finance Bill should be compiled and submitted to Ministers in early October. Accordingly, I should be grateful if you could arrange for details of any potential Treasury candidates in your areas of responsibility to be sent to me by 1 October. In many cases, there will, of course, be none and, to save time, I shall assume a nil return if I have not had a response by that date.

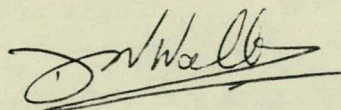
2. Details of each candidate for the starters list should be entered on the attached form. Guidance on its completion is also enclosed. Each starter should be on a separate sheet and extra copies of the form can be obtained from Sue Wallis on extension 5423 (room 91/1). If you have any questions about the way in which the information should be presented or on whether a candidate qualifies for inclusion in the Finance Bill, please give me a ring (Extension 8652).

3. Once all the returns have been collated and the list compiled, each starter will be given a unique reference number by FP. All submissions and papers on that starter should thereafter include this number in their title.

4. The starters list is a check list and inclusion on it does not imply policy approval for the measures detailed. Each should be the subject of a formal submission to Ministers which, inter alia, should include information on the impact of the proposal



on the Finance Bill (eg potential for controversy, length of legislation etc). The submission should be put to Ministers as soon as possible after the October edition of the starters list has been circulated. This will allow Parliamentary Counsel as much time as possible to draft the necessary clause(s).

A handwritten signature in dark ink, appearing to read 'D. N. Walters', with a horizontal line underneath.

D. N. WALTERS



~~CONFIDENTIAL~~

ITEM:

STARTERS NUMBER:

CLASSIFICATION:

Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
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Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
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BACKGROUND AND COMMENTS

Official in lead:

Official in support:

FP contact:

PAGE NO:



ITEM: Brief description

STARTERS NUMBER:

CLASSIFICATION: see below

DEPARTMENT:

*Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
(1) Give 1986-87 and 1987-88 (and full year if different) figures (or a range)	A specific figure if possible; otherwise a range	Answer Yes or No. (If in doubt consult FPI)	Estimate or range (including schedules) in lines, pages or fractions of a page
(2) If less than £1 million state negligible			
* If effect is on public expenditure, PSBR, this should be stated			

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed

**BACKGROUND AND COMMENTS**

- Use this space to explain the purpose and effect of the item in sufficient detail for this to be understood without supporting background material. Please indicate whether or not the item is likely to be controversial. Where the cost has already been taken into account in the forecast etc this should be stated.
- Please also record here the state of play (eg when submission is expected, nature of decisions already taken), nature of commitment (if any), and any factors affecting the accuracy etc of the data presented above (eg reasons for pattern of cost/yield; whether estimate of legislation length is a guess or based on advice from Parliament Counsel etc.)

CLASSIFICATION

A - Budgetary proposals  
 B1 - Ministerial commitments to action  
 B2 - Ministerial commitments to consider  
 C - Others.

Include telephone numbers

PAGE NO: Leave Blank





MR WALTERS

FROM: NIGEL WILLIAMS  
DATE: 15 September 1986

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Scholar  
Miss Sinclair  
Mr Pratt  
Mr Haigh  
Mr Romanski  
PS/IR  
Mr Johns/IR  
PS/C&E  
Mr Wilmott/C&E

**FINANCIAL BILL 1987 : BUDGET STARTERS**

The Financial Secretary was grateful for your submission of 9 September.

2. He is content with the proposed revised arrangements, as outlined in your submission, for keeping Ministers abreast of the latest position on Starters.

A handwritten signature in black ink, appearing to read "Nigel Williams", written over a diagonal line.

**NIGEL WILLIAMS**  
(Assistant Private Secretary)





INLAND REVENUE  
CENTRAL DIVISION  
SOMERSET HOUSE

FROM: S J McMANUS  
DATE: 24 OCTOBER 1986

FINANCIAL SECRETARY

**FINANCE BILL 1987 : STARTERS LIST**

FP are sending forward the starters list to you ~~today~~.

Last year your predecessor agreed a number of revisions to the starters list procedure, one of which entailed the Revenue undertaking an initial sift of their starters, prior to them being forwarded to FP for inclusion in the first edition of the list. The purpose of this exercise was to eliminate at the outset those starters which had little chance of being included in the Bill.

As last year I attach a brief description of the items we have discarded, together with the reasons for excluding them. If you want to reinstate any of the discarded starters, or require additional information on any of them, then please let us know. The exercise last year produced only one additional item for the Starters List. Our contribution to this year's list, and last year's is summarised as follows:

	<u>1985</u>	<u>1986</u>
Number of topics on starters list	59	65 (2 of which have already been dropped)
Discarded items	24	67

S J McMANUS

- 
- |                       |               |                    |
|-----------------------|---------------|--------------------|
| cc Economic Secretary | Mr Battishill | Mr McGivern        |
| Mr Scholar            | Mr Isaac      | Mr Taylor Thompson |
| Miss Sinclair         | Mr Painter    | Mr Pitts           |
| Mr Walters            | Mr Beighton   | Mr Johns           |
| Mr Graham             | Mr Cleave     | Mr McManus         |
| (Parly Counsel)       | Mr Lewis      | Mr Shaw            |
|                       | Mr Corlett    | PS/IR              |
|                       | Mr Houghton   |                    |



vi. R&D (CT)

We are being pressed to relax the rules for pre-trading R&D,, but would then have to reconsider both 'oily' and MOWA provisions.

vii. "In pursuance of a contract"

(On last year's starters list). If a court of Appeal decision in November on the meaning of this expression in Section 111(7) FA 1981 goes against us, we shall need remedial legislation. But hopeful of a decision in our favour.

(b) Issues which may arise at some stage, but no reason at present to expect that to be before FB 1987.

i. Gas exports

The PRT rules do not cater for exported gas. The Secretary of State for Energy now has power to authorise it. Unlikely to be any for a while, but industry would like the tax rules clarified for planning purposes.

ii. Abandonment

The PRT and CT rules for allowing the costs of abandoning fields will probably need to be amended.

iii. Incrementals

The Chancellor has promised to keep this under review. Unlikely to resurface until a relevant field nearer its end of life unless oil price fall revives the issue.

iv. CT relief for cost of second and later development wells

("New Brunswick"). At present treated as revenue but should probably be capital. Chancellor said would look at again in connection with Incremental review.

v. Relief for condensate gas fields

Both D/En and industry have raised this one. Extension of safeguard period proposed in representation about effect of oil price drop. Not clear that figures of economics needed for study of question will be available in time.

vi. Allow PRT relief for expenditure to be carried back

D/En interested in this oil-price-drop proposal because it might help to ensure development of Southern Montrose.



vii. Extended 'new field' relief to southern Basin

Another oil-price-drop proposal in which D/En interested. Probably unjustifiable; no reason to suppose fundamental change since last year's examination which showed "new" Southern Basin fields still very profitable.

viii. Onshore

Industry (especially smaller companies) continue to press for reinstatement of immediate PRT relief for onshore E&A abolished in FB 1985. Ministers commissioned NSFR working party to look at onshore regime generally, they are likely to recommend no change in immediate future, but to return to issue later.

- (c) Oil price fall. A number of suggestions made by oil companies in addition to those included in starters list (advance repayment of APRT and extend cross-field allowability of expenses).
- i. Reduce PRT rate  
Already rejected by Ministers.
- ii. Fix oil allowance in value terms  
The oil allowance is in volume terms and so worth less when the oil price falls. The proposed change would be very costly.
- iii. Amend rules for PRT instalments  
Companies had to pay around £1b in 1986 (G(a)(i)) more than their ultimate liability. Ministers declined to take action then, and the problem is unlikely to recur in respect of 1987 tax liabilities.
- iv. 100 per cent Capital Allowances  
For development costs. Cannot single out the oil industry.
- v. Remove restriction on rate at which oil allowance can be claimed  
Would help the more profitable fields.
- vi. Allow CT losses to be carried back  
Cannot single out oil industry.



vii. Increase uplift rate

Ill-targeted.

viii. Change criteria for PRT field

D/En say no worthwhile development being held up by present rules, though companies so claim for one field.

## (d) Other UKOITC points.

i. PRT relief for non-field based expenditure

Specific exceptions apart, PRT relief is given only for expenditure related to a particular field. It is said there is some expenditure which, while related to the 'North Sea' generally (and in some cases to oil activities generally whether in UK or elsewhere), is not field-specific and may not get relieved. Particular examples are R&D work, eg work on enhanced oil recovery, but also general overhead costs. (Part of this is covered by the Starter on PRT relief for Research.)

ii. Stranded abandoned field loss

In certain circumstances, a loss on an abandonment field cannot be relieved. This will now be considered along with the general abandonment issue (G(b)(ii)).

iii. CGT rollover relief for sales of licence interests

Still being pressed, but rejected in part as too costly and not distinguishable from similar non-oil cases.

iv. Stranded exploration costs

Before 1983, relief was available for 'abortive' exploration costs (those which did not lead to a field being worked). Some were not relieved because fields were discovered but the fall in oil prices may mean it is unlikely they will ever be developed. It is difficult to show this however and therefore that the exploration was 'abortive'.

v. Disposal Receipts in Exempt Gas Fields

There is a case for not charging PRT on disposal receipts in exempt gas fields, but Ministers were not persuaded when presented as a Starter for FB 1986.

vi. MOWA

UKOITC (and others) will doubtless continue to press for changes they did not get to the 1986 legislation. If they produce new evidence or arguments, Ministers may have to reconsider but at this stage there is none



we would recommend. FST also undertook to remedy any legislative defects "at the earliest opportunity", UKOITC had produced a list but not yet clear how valid.

(H) Interest

i. Deduction of tax: local authorities

Unlike banks and building societies, local authorities must deduct tax on paying interest to charities, exempt bodies (and non-residents). They say this puts them at a disadvantage in competing for funds. EST has rejected the request but promised to reconsider (sine die).

ii. Deposit-takers

The Banking Bill will remove the existing distinction between banks and authorised deposit-takers. A number of tax provisions apply only to banks. The Bank of England and Treasury have queried whether we should not now treat all deposit-takers alike. We are reviewing the rationale for our present rules.

iii. MIRAS and employees working overseas

As at present drafted, the rules prevent MIRAS applying to the loans of certain UK citizens working outside the UK, eg on oil rigs. It is not clear where the line should be drawn, and it may be possible to effect a remedy by a change to a double taxation agreement.

iv. Discounts

Where there is a discount on a bill of exchange which is accepted otherwise than by a UK bank, it is not deductible. CBI press for this 'anomaly' to be rectified, but it has not seemed important enough.

v. Deep discount securities

The recent change in tax effect does not apply unless the security is redeemable in a lump sum. The market want to issue securities redeemable in tranches and see no reason why this should debar favourable tax treatment. But there are practical difficulties in devising a rule, and a way round the problem exists.

vi. Commercial paper

The interest on short term securities is not deductible if issued by non-banks. But discounts on deep discount securities are deductible and this will probably suffice in practice.



vii. Employee buy-outs

Long-standing pressure for more reliefs for employee buy-outs includes extending the existing relief for interest on loans to effect the buy-outs. Ministers have rejected, but promised a further review.

viii. Employment bonds

There has been pressure for tax reliefs for bonds linked to job creation. Ministers have so far opposed.

ix. Swiss fiduciary deposits

The EST wants the interest on these not to be subject to Composite Rate Tax. We await Solicitor's advice on whether they are caught by the present rules. If so, they can almost certainly be taken out by secondary legislation however.

(I) Foreign Tax Issuesi. European School

Following decision of European Court, discussions with DES and FCO being undertaken to exempt the supplement paid to UK national teachers at European School. The aim is to achieve this without the need for Finance Bill legislation.

ii. Foreign dividends paid to non-residents

Present legislation is unsatisfactory in a number of respects but immediate action does not appear necessary.

iii. Section 482 ICTA 1970

The reform of Section 482 (migration etc of companies) is a potential starter in the light of the Daily Mail case presently before the Courts but in view of the time scale of the Court action it is not an active starter at the moment.

iv. European Economic Interest Groupings (EEIG)

DTI have now confirmed that their proposed legislation to pave the way for the establishment of EEIG has slipped to session 1987/88. As a consequence there is no question of legislating for the taxation implications before Finance Bill 1988. (The deadline contemplated by the Directive is 1989.)



v. Double taxation relief: company mergers

This was No. 126 category B2 in the FB 1986 list - dropped by FST 19 November 1985. Where a UK resident company controls at least 10 per cent of the voting power of a non-resident company and receives a dividend from that company, double taxation relief is normally available in respect of foreign tax on the profits out of which the dividend is paid. But relief is not available where the company which paid the taxes merges with another company and ceases to exist before the dividend is paid. CBI included in draft technical representations FB 1987 - but anomaly cannot be put right in isolation - knock on effect is for CFC legislation and a return to that controversial area will be unattractive to Ministers.

(J) General

Extra-Statutory concessions. Our decision that in the tax-avoiding circumstances of a particular taxpayer a specific extra-statutory concession was not available to him is subject to judicial review. We think our approach justifiable, but the Court may criticise the way the Board operates ESCs. The Board would then need to consider its position and might seek legislative cover.



(A) Charities (EST)Anti-avoidance measures

Consultations with the charity movement on 1986 anti-abuse measures led to revision of proposals. Ministers said they would want consultations to continue to see whether anything further needed to be done - eg on accumulations. First exploratory discussions have gone well. Confident that a consultative framework can be established to explore possible administrative and legislative ways of tackling remaining abuses. Revenue consultations on tax issues, and parallel Treasury consultations on role and work of Charity Commission, will keep closely in touch. 1987 Bill probably too soon for reaching conclusions on whether or not further legislative change required.

(B) Stamp Duty (EST)i. Builder Vendor

Miss Rhodes' minute of 4 August warned that there are a growing number of cases where the duty to be charged on the sale of a new house is under dispute. The Courts may in due course clarify the position for us but it may be some time before they provide a complete answer.

ii. North Sea Oil

Oil companies have been avoiding substantial stamp duty liabilities that arise on North Sea deals by executing documents abroad and keeping them outside the UK. Although the North Sea is part of the UK for other taxes it is not for stamp duty. While there will no doubt be sales in the future, legislating now may look like shutting the door after most of the horses have bolted.

iii. Appeal Procedures

The High Court has criticised the failure to bring the stamp duty appeal arrangements into line with those for other taxes. This was proposed both by the 1983 Consultative Document and by Keith. The Lord Chancellor's Department has drawn attention to the difficulties that may result from the differences between stamp duty and SDRT appeal procedures. The reform of the stamp duty procedures presumably has to wait its turn in the Keith queue.

(C) Life Assurance Xi. 'Chargeable Events' Legislation

Two possible weaknesses which could be exploited for tax avoidance purposes.



No evidence of significant exploitation. But may need to think again if such evidence comes to light.

ii. Audit Powers

Our existing powers to audit life offices stem from the 1976 legislation concerning LAPR by deduction. So strictly we cannot use them to inspect post-Budget 1984 policies which are not eligible for LAPR. In principle, we need new audit powers to inspect such policies.

No life office has yet refused our auditors access to post-Budget 1984 policies. In practice, it seems unlikely that they would - even if they understood the correct legal position.

(D) Inheritance Tax

i. Exploitation of spouse exemption

There is full IHT exemption for property which passes to a spouse of UK domicile. It appears that this can be exploited to pass assets tax-free to other beneficiaries.

The device is worth using only in the larger cases, and, as far as we can tell, it is not at present widespread - but its exponents are well-known in this area, and are likely to use it more widely. We need a little more information before we can make recommendations on the amount of revenue at stake, and the counter-action needed. Such counter-action would probably involve limiting the terms of the charity and spouse exemption.

In preparation of the IHT legislation, Ministers did not feel it necessary to place any limits on spouse exemption, even though this could be used to channel property from testator to beneficiary tax-free if the testator's spouse survives for seven years.

ii. Use of deferred shares in unquoted close companies

Section 98 CTTA attacks avoidance by manipulation of share rights by taxing as a disposition by the participators any alteration in the share or loan capital (or attached rights) of a close company. We have seen cases where deferred shares are created with little or no rights, and transferred at that time, but with the intention that value will subsequently pass into them free of IHT.

We have identified a case which is now with the Solicitor for advice, to see how strong the existing defences are against such devices. Depending on that advice, we may want to litigate, so legislation is



still some way off. In addition, the complete IHT exemption for shares given more than seven years before death may well mean that the tax planners move away from this kind of device.

iii. Payment of IHT by instalments

The new rules for payments by instalments do not exactly match the requirements for business and agricultural relief:

- a. they do not allow the facility when one qualifying property is replaced by another;
- b. there is no requirement for property to be qualifying at the date of death.

CTT did not have a complete match between the reliefs and the payment by instalments facility, and there has been little or no pressure for change. The IHT position is different, with the double test at the dates of gift and death. The provisions which allow replacement qualifying property for the reliefs are complex, and in the absence of representations we are not anxious to extend them to the instalment facility. If there are difficulties in practice (rather than in theory) there are some adjustments which could be made (not all for the taxpayer) at the price of adding to the complexity of the IHT code.

iv. Trust: Associated Operations

Reversal of High Court decision (Macpherson v CIR) that would allow tax-free extraction of value from discretionary settlements by associated operations. Ministers warned in December 1985 of possible need to consider legislation.

Appeal pending: case unlikely to reach Lords before Finance Bill 1987, if at all. Potential tax loss probably negligible until 1989-90. BUT might need to be reconsidered for legislation in 1987 (rather than appeal to Lords) if Court of Appeal reaches very damaging conclusion at hearing in November 1986.

(E) Capital Gains Tax

i. Shares exchanged for debentures

Increase in recent years of takeovers taking the form of an issue of debentures, redeemable in tranches over (typically) a five year period, in exchange for ordinary shares. Done this way to secure benefits of CGT rollover relief (Sections 85 and 86 CGTA) while effectively providing the shareholder with cash sums payable in instalments. Shareholder receives benefit of annual exempt amount and indexation relief on



redemption of each tranche. Following FA 1985, stamp duty relief now denied if securities can be converted into cash within 3 years.

Put forward to Ministers last year as Category C Starter. FST agreed that position should be monitored. EST against taking action in any event. No evidence of increase in cases involving redeemable debentures.

ii. Section 273, ICTA and Section 98, CGTA

Apply provisions of Section 98, CGTA where Section 273 ICTA has applied and subsequently the company becomes an approved investment trust within Section 359, ICTA.

Only one case seen. No evidence of sizeable problem. Likely to strengthen pressure for legislation on groups generally.

iii. Non-residents trading in UK and rollover relief

Restrict rollover relief for non-residents trading in UK where replacement asset is not used for purposes of UK branch.

Recent trawl indicates problem is a small one. Only some 15 cases (involving tax of £m1.5) have been identified over the last 5 years.

iv. Rollover relief followed by emigration

Clawback relief where gains rolled over into overseas assets followed by emigration.

No evidence of substantial abuse.

v. Held over gains rolled into private residences

Restricts gifts holdover relief where the asset is used by the transferee as a private residence.

No evidence of substantial exploitation.

vi. Gubay and Kington

Amend the provisions in Sections 44 CGTA and Section 42(1) and (2) ICTA subject to Gubay v Kington exploitation (transfer by UK resident spouse to non-resident spouse).

No evidence of substantial exploitation.



vii. Reduce qualifying expenditure by the amount of capital allowances given

Amend Section 34 CGTA to restrict expenditure for capital gains purposes to the extent that it has qualified for capital allowances which have not been withdrawn.

No evidence of significant tax loss.

viii. Compensation payments

Courts have decided (in ZIM case) that CGT applies to a sum paid on the compromise of an action for negligence. Concern has been expressed (by the Law Society) that this decision could have wide ranging effect by bringing all claims for CGT damages within CGT net.

This is a complex area in which the law is still developing. Under consideration with our Solicitor and discussing implications with Law Society.

ix. Capital certain assets

The 1985 changes to the indexation provisions have created scope for generating allowable losses on capital certain assets by operation of the indexation allowance. Recent publicity has drawn attention to this in the context of building society share accounts.

No evidence yet of widespread exploitation. Ministers have agreed that position be monitored.

x. Groups

CGT package for groups has three elements:

- a. providing group relief for capital losses;
- b. amending definition of group for CGT purposes (to bring into line with definition for CT purposes);
- c. restricting capital loss buying (although opportunity for this is considerably reduced by Furniss v Dawson).

Consultations have been held with main representative bodies (who have pressed for a. for many years), but difficult issues on c. remain to be resolved. In view of commercial implications, further consultation (ideally in form of draft clauses) essential. Suggests longer timescale than legislating in 1987 would provide.

FST  
Decided  
No action.



xi. Payments for covenants not to compete

In the Thorn EMI case it was held that lump sums payable pursuant to covenants not to compete are outside the charge of capital gains tax. The scope for avoidance which the decision in this case has now created has been noted in the professional journals.

No evidence of substantial exploitation.

(F) Other Capital Tax Issuesi. Deletion of reference to Trustee Savings Bank

Section 6(3)(d) CTTA gives exemption to deposits with the National Savings Bank or with a Trustee Savings Bank held by anyone domiciled in the Channel Islands or the Isle of Man. The exemption was introduced to encourage savers in the Islands to invest in those institutions, but Ministers decided in 1984 that it was no longer appropriate to the new TSBs. Legislation was planned for the TSB Bill, rather than the Finance Bill, and Counsel drafted the necessary provision (5 lines) in 1984. But it was dropped with Ministerial approval at the last minute on the grounds that it would mean the TSB Bill dealt with 3 subjects instead of 2, and thus be open to an undesirably wide range of amendments.

It is not a pressing problem in practice and must have a very low priority.

ii. Date of disposal for Scottish heritable property

For CGT purposes, the date of transfer of Scottish heritable property is (Section 27 (CGTA)) the date of the contract, or more precisely the date of completion of binding missives for sale. For IHT, the effective date of transfer is not then, but the later stage when the disposition is delivered to the purchaser. This is particularly relevant to the allocation of agricultural relief. Prior to 1978, our practice in Scotland was the same as elsewhere in the UK, so that we regarded beneficial ownership as passing at the date of contract. But this had to be changed after the Scottish case of Gibson showed it to be contrary to the general law.

The Law Society of Scotland press annually for a change to bring the IHT treatment in Scotland in line with that for CGT. However, the point was not in the past been thought sufficiently troublesome to require legislation, and in some cases the change of relief (from vendor to purchaser) would not be welcomed. If legislation were thought appropriate, consultations would be needed with the Lord Advocate's Department because of the implications for general law.



(G) Oil

## (a) General

i. Keith PRT implementation

Vol 3 of Keith Committee Report set out recommendations, inter alia, on PRT compliance regime. No Ministerial commitment as to timetable for implementation, but general assumption that it would follow that on IT and CT, as closely linked. In light of Ministerial preference for only limited legislation in 1987 on CT pay and file, this item now on discards list.

ii. "Keith-related" items

A number of other possible changes on administration of PRT have been linked to the Keith PRT implementation timetable, some arising from oil industry representations, and others identified by Revenue. Some are so closely linked to Keith recommendations, that separate treatment not appropriate; others might have merit in their own right, but not strong candidate for limited FB space.

iii. Tax recovery

Section 124 FA 1984 gave teeth to a 1973 measure empowering us to recover certain tax unpaid by non-residents from oil field licensees. The latter object strongly, especially since they cannot adequately check whether the tax demanded is 'demandable'. They would like authority for us to give them confidential information (as in Schedule 11, paragraph 5(5) FA 1986 for Entertainers and Sportsmen). Seems fair in principle, but would make administration more difficult in practice.

iv. Oil allowance for gas fields

The oil allowance was designed for oil. For gas, there is a simple conversion factor which applies for all OTA purposes. But its value is different for different gases. "Loser" companies affected are pressing for less arbitrary rule, but any change would probably leave other companies worse off.

v. Oil allowance

The rules work in such a way that participators in an oil-field can end up getting the 'wrong' share of allowance. An amendment has been sought to enable the shares to be put right. Ministers rejected this 'sweetener' last year. (Companies can make cash equalisation payments to resolve the imbalance themselves.)



CONFIDENTIAL



FROM: JILL RUTTER  
 DATE: 28 October 1986

PS/FINANCIAL SECRETARY

cc: Chancellor  
 Economic Secretary  
 Minister of State  
 Sir Peter Middleton  
 Mr Cassell  
 Mr Scholar  
 Miss Sinclair  
 Mr Walters  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Tyrie

Mr Isaac - IR  
 Mr Painter - IR  
 Mr Beighton - IR  
 Mr Shaw - IR  
 PS/Customs & Excise  
 Mr Wilmott - C & E  
 Mr Graham - Parl. Counsel

**1987 FINANCE BILL STARTERS**

The Chief Secretary has seen the folder circulated under cover of Mr Walters' minute of 24 October to the Financial Secretary.

2 The Chief Secretary has not gone through the proposals in any detail - nor will he before the PES round is over. But he has commented that he believes that next year's Finance Bill must be as short as possible.

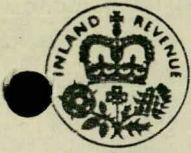
*Tony, with you.*

*Jill Rutter*

JILL RUTTER  
 Private Secretary

CONFIDENTIAL





FROM: P J A DRISCOLL  
EXT: 6287

19 November 1986

FINANCIAL SECRETARY

FINANCE BILL 1987: STARTER 152  
CAPITAL ALLOWANCES: PREVENTION OF DUAL ALLOWANCES

1. The attached note from Mr Elmer describes this technical starter in some detail. It concerns the situation where a given item of expenditure creates an asset that falls within more than one of the categories recognised by the capital allowances system. An example might be a central heating system in a factory which would be at the same time "plant" and, because it forms part of the structure of the building, "expenditure on the construction of an industrial building".

2. The background is that it is now a little more than 40 years since capital allowances were first introduced. In recent years (since at least 1971) there has been frequent legislation in this area and in particular the rates of the various allowances have been changed several times. The result is that the old relativities have been disturbed and legislation that made sense in 1945, by giving priority to one possible allowance over another, now has the opposite effect from that intended. In most cases, the original idea was to settle matters in favour of the taxpayer by giving him the most beneficial allowance.

- 
- |                                   |              |
|-----------------------------------|--------------|
| cc. PS/Chancellor                 | Mr Painter   |
| PS/Chief Secretary                | Mr McGivern  |
| Sir P Middleton                   | Mr Pitts     |
| Mr Cassell                        | Mr Lawrance  |
| Mr Wilson                         | Mr Beighton  |
| Mr Scholar                        | Mr Cleave    |
| Ms Sinclair                       | Mr Johnston  |
| Mr Cropper                        | Mr Elliss    |
| Mr Graham (Parliamentary Counsel) | Mr Beauchamp |
|                                   | Mr Pearson   |
|                                   | Mr Driscoll  |
|                                   | Mr Johns     |
|                                   | Mrs Hubbard  |
|                                   | Mr Elmer     |
|                                   | PS/IR        |



3. As the note explains, there are basically two different problems that we would like to resolve. Firstly, we are in certain circumstances technically open to giving two sets of allowances. There is a potential loss of tax - although we are not aware that anyone has actually been so bold as to claim relief twice over for the same expenditure. Secondly, in accordance with the spirit of the reliefs, we have in one quite important area been operating an extra-statutory concession that ought either to be published or legislated for.


4. Our proposed solution to both problems is to get right away from the original system of laying down a statutory order of priority for the various allowances and instead to build upon the approach adopted by Parliamentary Counsel in 1986 in relation to agricultural buildings and machinery and plant allowances. Under this approach a taxpayer may simply have the type of allowance he prefers and is then automatically debarred from having any further allowances for the same item of expenditure. This approach not only settles the matter unequivocally in favour of the taxpayer but, we hope, avoids for the future the sort of awkwardnesses described in Mr Elmer's note.

5. Legislation on the lines proposed would represent a modest rationalisation and simplification of what has become a complicated code. It would prevent a possible loss of tax and would put on to a statutory footing what we think is a desirable extra-statutory practice. There is, as Mr Elmer explains at paragraph 17, some scope for criticism on the grounds that what is now proposed should have been done earlier but that might be said about any number of useful measures.

6. You will want to consider whether, in view of the pressure on space in the 1987 Bill, this should continue as a Starter. We cannot point to any significant loss of tax; but it is clearly wrong that the Exchequer should be vulnerable to double claims for the same expenditure. If you decide to legislate, we shall instruct Parliamentary Counsel accordingly. If you decide against legislation, we recommend publication as an extra-statutory concession of the practice described at para-



graph 12 of the main note. We should continue to watch out for double claims in the areas described. If actual cases arise it may be desirable at that stage to announce an intention to introduce legislation effective from the date of the announcement to eliminate dual claims for the future.

  
P J A DRISCOLL





## Inland Revenue

Policy Division  
Somerset HouseFROM: G A A ELMER  
DATE: 18 November 1986

FINANCIAL SECRETARY

CAPITAL ALLOWANCES: PREVENTION OF DUAL ALLOWANCES  
(BUDGET STARTER No 152)

1. The present capital allowance codes relating to various categories of qualifying expenditure are not necessarily mutually exclusive. Thus, expenditure can qualify for allowances simultaneously under more than one code. For example, as a matter of general law, fixed plant and machinery contained within a building forms part of the building itself and, in the absence of provision to the contrary, could qualify for allowances both as plant or machinery and for any allowance due in respect of the cost of constructing the building.

2. There is legislation to prevent double allowances in a number of areas but it is not comprehensive. Where it does exist it usually directs which of the possible allowances the taxpayer is to have. Originally, the effect was generally to give the taxpayer the benefit of the shortest possible write-off period (and hence earlier relief), but with the changes in rates of allowances that have come about, the permitted allowance - contrary to the original intention - is no longer necessarily the most favourable.

---

c.	PS/Chancellor	Mr Painter
	PS/Chief Secretary	Mr McGivern
	Sir Peter Middleton	Mr Beighton
	Mr Cassell	Mr Pitts
	Mr Wilson	Mr Lawrence
	Mr Scholar	Mr Cleave
	Miss Sinclair	Mr Johnston
	Mr Cropper	Mr Elliss
	Mr Graham (Parliamentary Counsel)	Mr Beauchamp
		Mr Pearson
		Mr Driscoll
		Mr Johns
		Mrs Hubbard
		Mr Elmer
		PS/IR



3. The following paragraphs

- describe the problems in more detail; and
- seek authority for the drafting of the necessary corrective legislation to be put in hand to form part of Finance Bill 1987.

Background

4. The basic framework of capital allowances dates back to the Income Tax Act 1945. It was recognised in that Act that steps were necessary to prevent taxpayers claiming allowances for the same asset under more than one head. Thus, it was provided that no allowance was to be made as an industrial building if an allowance could be made under the provisions of the Act relating to plant and machinery, to mines, oilwells etc., or to agricultural buildings.

5. Those provisions were carried into the Capital Allowances Act 1968 together with other rules to prevent double claims in certain situations. But, as then framed, the rules did not prevent dual claims in the following circumstances:-

<u>Allowance given</u>	<u>Further allowance claimable</u>
Scientific Research Allowance (SRA)	Agricultural Buildings Allowance (ABA)
ABA	SRA
Industrial Buildings Allowance (IBA)	Machinery or Plant
SRA	Mines and Oilwells
Machinery or Plant	ABA



6. Action was taken in Finance Act 1986 in relation to the last two situations with the result that:

- i) allowances under the new code of mining reliefs are not given in respect of expenditure also qualifying for SRA;
- ii) a taxpayer can now take either machinery or plant allowances or ABA in relation to particular items of expenditure subject to the new ABA code but may not have both. His choice, once made, becomes irrevocable.

The Present Problem: statutory right to double allowances

7. There is no basis in law for denying dual allowances under the first two heads referred to in paragraph 5. For example, a company carrying on scientific research into seed genetics and running an experimental farm from which produce is sold could be entitled to claim both SRA and ABA on buildings constructed on agricultural land. We are not aware that taxpayers have sought to take advantage of this sort of situation but the possibility is there. As the law stands now if a taxpayer chose to press the point we should have to give two sets of relief for the same expenditure. The position in relation to IBA and machinery or plant is not clear cut but there are circumstances where we would have no explicit defence against a dual claim. We think legislation is needed to put matters right.

8. One result of a decision to legislate on this subject might be to prompt taxpayers to take advantage of existing loopholes by making dual claims for back years. But there is no evidence of taxpayers seeking to exploit in this way the lacuna in the old mines and oil wells code highlighted by this year's legislation;



nor is this the sort of area where we think Ministers would wish to consider retrospective legislation.

#### Further aspects of problem

##### Changes in rates of allowance

9. The common thread running through the original anti-dual-allowance provisions which directed which of the allowances a taxpayer was to have, was that he should have the benefit of the higher rate of allowance. But as rates of allowance changed, the allowance prescribed was not necessarily the more favourable.

##### Agricultural buildings allowances

10. The first area of difficulty in that respect involved ABA. Allowances by way of ABA were originally seen as likely to be more favourable than machinery or plant allowances and the rules accordingly directed that machinery or plant allowances should not be given in respect of expenditure qualifying for ABA. The advent of enhanced rates of writing down allowance and of first year allowances reversed the situation and, for a number of years until legislation was introduced in 1986 as part of the reform of ABA, the inequity was met administratively by allowing a taxpayer the benefit of the more favourable allowance, provided that he was consistent in his claim.

##### Enterprise zones

11. The 1984 capital allowance changes have brought about a parallel - but converse - situation in regard to fixed plant and machinery within enterprise zone buildings. While first year allowances for machinery or plant and initial allowances for enterprise zone construction costs both stood at 100 per



cent there was no problem. It mattered little under which head relief was allowed. But the phasing out of first year allowances (leaving relief for machinery and plant to be given by way of annual writing down allowance of 25 per cent of the reducing balance) and the retention of the 100 per cent initial allowance for enterprise zone construction changed matters.

12. Again, the problem was dealt with administratively by allowing taxpayers who spent money on providing machinery or plant that was part of a qualifying structure to choose the higher rate of allowance i.e. the 100 per cent initial allowance for business buildings. This concession has been applied in relation to fixed plant and machinery forming an integral part of an enterprise zone building or structure and essential to the functioning of that building for the purpose for which it was designed. That restriction was to confine the relief to landlords fixtures and fittings (central heating, washroom and toilet fittings, lifts etc) and to exclude tenants fittings. Without it, we should have been vulnerable to claims for 100 per cent initial allowance, on, say, production machinery that was simply fixed to the floor and which would normally qualify for only machinery and plant allowances at the 25 per cent rate.

13. The approach described in the previous paragraph was seen as being wholly consistent with the spirit and purpose of the enterprise zone scheme but on reflection we realise that it takes us beyond mere practice into the field of extra-statutory concession. This is because items qualifying for machinery and plant allowances are specifically disqualified from the IBA.

14. If a legislative solution is not found we shall be obliged either to discontinue this practice or to publish an extra statutory concession.



Proposed solution

15. To remove the anomalies described in paragraphs 7 - 14 above we recommend legislation in the Finance Bill 1987 to provide a uniform set of rules to cover all capital allowances. Under these rules a taxpayer incurring capital expenditure that was potentially capable of qualifying for relief under more than one head of the capital allowances code would be able to take allowances under whichever system of relief he preferred (c.f. the rules for the ABA described at paragraph 6(ii) above). These rules would not set out any order of priority and would apply to specific items of expenditure, allowing the taxpayer to pick and choose.

16. Legislation on these lines would represent a not inconsiderable simplification in favour of the taxpayer and eliminate the need to publish an ESC. The manpower implications are negligible. A small Exchequer cost may arise if legislation prompts taxpayers to take advantage of the earlier loopholes but this too is thought unlikely to be other than negligible.

Possible criticisms

17. Following the 1986 measures on MOWA and ABA, legislation in 1987 on the lines proposed may prompt the criticism that this approach should have been adopted sooner. Moreover, the approach adopted in the MOWA legislation was to give priority to SRA where the two codes overlap and not to allow a choice as was done for ABA and as is now proposed.

18. Such criticism could be answered on the basis that now that reconstruction of major elements of the capital allowance system is complete, there has been an opportunity to take a fresh look at the interaction between the various codes and to simplify the overall system. A uniform scheme of choice where codes overlap will be for the benefit of taxpayers.



19. So far as the SRA/MOWA overlap is concerned, the oil industry had argued for a choice, and can, therefore, be expected to welcome legislation on the lines proposed. It should be noted, however, that there are in the new MOWA code other examples where - for structural reasons - certain types of expenditure which could overlap are put into the Plant or Machinery code rather than MOWA and vice versa, and we are not proposing to disturb those rules.

#### Summary

20. What follows assumes that Ministers would wish to ensure that, where an asset comes within more than one head of the capital allowance code, the taxpayer should be allowed to opt for the more favourable rate.

21. On that basis, we think that the coverage of the the present group of "anti-double-allowance" provisions should be consolidated and extended to achieve the result that no allowance may be claimed under more than one of the capital allowance codes but that the taxpayer may claim under whichever of the relevant provisions he wishes - with the proviso that his decision once made is irrevocable.

22. What we envisage therefore is a catch-all provision on lines broadly identical to this year's provision in relation to ABA (see paragraph 6). This would eliminate the risk of double allowances being given for the same expenditure while, at the same time, regularising the position described in paragraph 12.

23. We would be glad to know therefore whether you agree that drafting of legislation should proceed as suggested.

  
G A A ELMER



1 Tony  
2 PWP

8

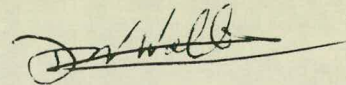
FROM: D N WALTERS  
DATE: 20 NOVEMBER 1986

**ALL UNDER SECRETARIES**

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Miss Sinclair  
Miss Evans  
Mr Dyer

**1987 FINANCE BILL: STARTERS**

- ... My minute of 11 August (copy attached) asked for details of any potential Treasury candidates for the 1987 Finance Bill. Positive responses were subsequently incorporated into a list submitted to Ministers in October. That list will now be revised and updated on a regular basis through the pre-Budget period.
2. Our next revision is planned for the week beginning Monday 1 December. In order to ensure the update is fully comprehensive, I would be grateful to know whether, since my earlier trawl, any new candidates for inclusion have arisen. So that I can meet the timetable, I would be grateful for responses by close on Thursday 27 November. As before, to save time, I shall assume a nil return if I have not had a reply by then.
3. In considering this question, you should bear in mind that, if you are thinking of proposing an item for inclusion in the Finance Bill, you should aim to seek decisions from Ministers as soon as possible so that drafting instructions can be sent to Parliamentary Counsel at the earliest opportunity. This will help avoid the inevitable pressures on time which will come after Chevening.



D N WALTERS



FROM: D N WALTERS  
DATE: 11 August 1986

ALL UNDER SECRETARIES

cc: PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Miss Sinclair  
Mr Pratt o.r  
Mr Dyer

**1987 FINANCE BILL: STARTERS**

In line with normal practice, it is intended that the first edition of the starters list for the 1987 Finance Bill should be compiled and submitted to Ministers in early October. Accordingly, I should be grateful if you could arrange for details of any potential Treasury candidates in your areas of responsibility to be sent to me by 1 October. In many cases, there will, of course, be none and, to save time, I shall assume a nil return if I have not had a response by that date.

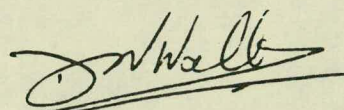
2. Details of each candidate for the starters list should be entered on the attached form. Guidance on its completion is also enclosed. Each starter should be on a separate sheet and extra copies of the form can be obtained from Sue Wallis on extension 5423 (room 91/1). If you have any questions about the way in which the information should be presented or on whether a candidate qualifies for inclusion in the Finance Bill, please give me a ring (Extension 8652).

3. Once all the returns have been collated and the list compiled, each starter will be given a unique reference number by FP. All submissions and papers on that starter should thereafter include this number in their title.

4. The starters list is a check list and inclusion on it does not imply policy approval for the measures detailed. Each should be the subject of a formal submission to Ministers which, inter alia, should include information on the impact of the proposal



on the Finance Bill (eg potential for controversy, length of legislation etc). The submission should be put to Ministers as soon as possible after the October edition of the starters list has been circulated. This will allow Parliamentary Counsel as much time as possible to draft the necessary clause(s).

A handwritten signature in cursive script, appearing to read 'D. N. Walters', written in dark ink. The signature is fluid and somewhat stylized, with a long horizontal stroke at the end.

D. N. WALTERS



ITEM:

STARTERS NUMBER:

CLASSIFICATION:

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Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
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Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
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BACKGROUND AND COMMENTS

Official in lead:

Official in support:

FP contact:

PAGE NO:



ITEM: Brief description

STARTERS NUMBER:

CLASSIFICATION: see below

DEPARTMENT:

*Revenue cost (-) or yield (+) £ million	Staff addition (+) or saving (-)	PCTA or equivalent Resolution required	Length of legislation (lines or pages)
(1) Give 1986-87 and 1987-88 (and full year if different) figures (or a range)	A specific figure if possible; otherwise a range	Answer Yes or No. (If in doubt consult FPI)	Estimate or range (including schedules) in lines, pages or fractions of a page
(2) If less than £1 million state negligible			
* If effect is on public expenditure, PSBR, this should be stated			

Minister in lead	Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed

**BACKGROUND AND COMMENTS**

- Use this space to explain the purpose and effect of the item in sufficient detail for this to be understood without supporting background material. Please indicate whether or not the item is likely to be controversial. Where the cost has already been taken into account in the forecast etc this should be stated.
- Please also record here the state of play (eg when submission is expected, nature of decisions already taken), nature of commitment (if any), and any factors affecting the accuracy etc of the data presented above (eg reasons for pattern of cost/yield; whether estimate of legislation length is a guess or based on advice from Parliament Counsel etc.)

CLASSIFICATION

A - Budgetary proposals  
 B1 - Ministerial commitments to action  
 B2 - Ministerial commitments to consider  
 C - Others.

Include telephone number

PAGE NO: Leave Blank





Inland Revenue

Policy Division  
Somerset HouseFrom: M G SHARP  
Ext: 6348  
Date: 21 November 1986

PS/FST MR WILLIAMS

*W. J. J. 21/11*

CORRIGENDUM

TAX CREDIT RELIEF: BANKS (FB STARTER NO.158)

I shall be grateful if you will amend the third line of paragraph 33 of Mr Shepherd's note of 18 November to read ".... but the drawback is that it would give exemption to countries .....", ie delete the "not".

M G SHARP

---

cc PS/Chancellor	Mr Battishill
PS/Chief Secretary	Mr Painter
PS/Economic Secretary	Mr Pollard
PS/Minister of State	Mr Taylor Thompson
Sir P Middleton	Mr Beighton
Mr Cassell	Mr McGivern
Mr Scholar	Mr Roberts
Mr Cropper	Mr Hunter
Mr Short	Mr J F Hall
Ms Sinclair	Mr Bryce
Mr Hall	Mr Fawcett
Mr Graham (Parliamentary Counsel)	Mr Shepherd
Mr Mallett (Bank of England)	Mr Weeden
	Mr Fitzpatrick
	Mr Jukes
	Mr Sharp
	PS/IR





28

FROM: N WILLIAMS

DATE: 24 November 1986

MR DRISCOLL/IR

cc PS/Chancellor  
PS/Chief Secretary  
Sir P Middleton  
Mr Cassell  
Mr Wilson  
Mr Scholar  
Ms Sinclair  
Mr Cropper  
Mr Graham  
Parliamentary Counsel  
PS/IR

**FINANCE BILL 1987: STARTER 152  
CAPITAL ALLOWANCES: PREVENTION OF DUAL ALLOWANCES**

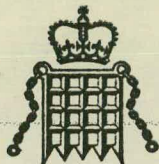
1. The Financial Secretary was grateful for your minute of 19 November with the attached note from Mr Elmer.
2. The Financial Secretary's view is that this should be dropped as a starter.
3. He is content, given his decision on this, with your recommendation that the practice described at paragraph 12 of the main note should be published as an extra-statutory concession.

NIGEL WILLIAMS  
(Assistant Private  
Secretary)



CONFIDENTIAL

*part*



Board Room  
H M Customs and Excise  
King's Beam House  
Mark Lane London EC3R 7HE

From: P Jefferson Smith  
Date: 12 December 1986

MINISTER OF STATE

cc **Chancellor**  
Chief Secretary  
Financial Secretary  
Economic Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Mr Scholar  
Ms Sinclair  
Mr Ross Goobey  
Mr Tyrie  
Mr Graham  
(Parly Counsel)

*✓*

**MARINE DIESEL OIL USED IN PLEASURE CRAFT : STARTER NO. 24**

1. Mr Wynn Owen's minute of 3 March 1986 records the Chancellor's view that extending the full derv duty rate to marine diesel used in pleasure craft was worth considering as a starter for 1987. The issue was first raised by the then Secretary of State for Transport, Mr Ridley, some time after it had proved administratively impracticable to obtain a contribution from pleasure craft for their use of aids to coastal navigation under a reformed light dues system.

*-c- we do not keep <sup>back</sup> papers this long in the office I'm afraid. Will find copy on mcdon if you wish*

The Case for Taxation

2. Diesel engined marine pleasure craft bear duty on their fuel at 5p per gallon: by contrast, those with petrol engines bear duty at 88p per gallon. So do petrol engined road vehicles: diesel engined road vehicles bear duty on their fuel (derv) at 75p per gallon. Apart from a modest revenue yield, the case for taxing fuel for diesel engined pleasure craft at the full derv rate is that this is inessential expenditure - indeed, of a luxury character. There is

Internal circulation:

CPS	Solicitor	Mr Breuer	Mr Wilmott	Mr Bone
Mr Knox	Mr Butt	Mr McGuigan	Mr Bolt	Mr Boardman

200/12/86



unfair competition between petrol and diesel engined craft, and many boat users are thought to believe that it is only a matter of time before their diesel fuel gets charged at the derv rate. Those who would pay should be well able to afford it.

#### Possible Yield and Impact

3. This is extremely difficult to estimate. Quite apart from the problems of definition and control discussed below there is no hard information about the numbers of pleasure craft or the amount of fuel consumed. We do know the amount of diesel oil going to marine use, currently about 2 1/2 million tonnes a year. Most of this is for international traffic or for commercial uses which would remain out of the scope of the extended tax. By subtracting those users, we can be certain that consumption by pleasure craft is no more than 10% of the total and it could be a great deal less. On that basis, the maximum yield of the change would be £30 million a year, with the most likely yield being somewhere around the £15 million mark. The numbers of pleasure vessels are even more uncertain, and a study in connection with light dues by Arthur Anderson for the Department of Transport gave a very wide range. Our guess would be somewhere around the 100,000 mark, suggesting an increased duty burden per vessel of around £150 a year, but with a wide range of possible variations. Some vessels only do 2 or 3 miles to the gallon, and the extra duty could thus be considerable. In price terms, marine diesel oil at present costs about 90p to £1.00 per gallon. A duty increase of 70p plus associated VAT would put up the price by about 80-90%.

#### Area to be Taxed

4. Most pleasure craft are quite easy to recognise if not to define. The term "pleasure yacht" is already used in oil duty legislation to specify a class of vessel which must obtain its fuel taxed at 5p per gallon and may not obtain complete relief from the duty. A distinction between pleasure and other craft is also made in other bodies' regulations, for example those governing navigation of the Thames. But if the duty differential was 75p per gallon, a more



# CONFIDENTIAL

robust definition would be required. We would assume that present arrangements for the 5p per gallon rate or for complete duty relief would continue to apply to commercial traffic. This would include fishing boats, estuarial and river ferries, and boats operating scheduled or water taxi services. The latter would include boats operating commercial pleasure trips such as those on the Thames. But those same boats are frequently hired out to individuals or parties for evening trips. As they are crewed by the operator they might be exempted from the additional charge. However, many pleasure yachts or canal barges which are hired out daily or weekly for holidays and which should come within the charge, are professionally crewed. There will be other areas of possible anomaly such as company-owned yachts allegedly used only for business entertainment: would they bear the full rate or not? While it would be possible to define pleasure craft in a definite way, the line would certainly be arbitrary, and hence lead to complaints of unfairness.

## Means of Imposing the Tax

5. Although the oil duty is often regarded as based on the use of the oil, in fact the mechanism by which it operates is that the tax is charged or remitted as near as possible to delivery from the refinery, the duty rate depending on the nature of the oil and the outlet through which it is to be sold. Thus, all petrol is taxed at the road use rate and the minority of users entitled to reduced rates claim refunds. Diesel oil is more complicated. Oil supplies for road use are dutied at the 75p rate on delivery from the refinery. Oil for uses attracting the 5p duty rate is delivered from the refinery after it has been chemically marked and dyed, and it is a requirement of the law that the invoices under which it is resold should be marked prominently "not for road use". Where it is supplied duty-free for international traffic, there is no requirement for chemical marking, but it is supplied only from installations approved for bunkering of international-going ships. Where vessels entitled to duty-free diesel oil cannot get it directly from a bunkering warehouse, they can buy marked oil at the 5p a gallon rate



and claim repayment of the duty.

6. The duty status of the oil found in the different outlets reflects these uses. Garages supply petrol and unmarked diesel oil at the full rates; those entitled to 5p a gallon diesel oil inland must get it from distributors who will supply marked oil. For vessels, marked oil dutied at 5p a gallon is supplied from marinas, boatyards and dockside pumps, whilst duty-free oil comes from bunkering warehouses. Taxing diesel oil for pleasure craft at the full derv rate would mean that those catering for such traffic would have to supply unmarked full duty oil; it is unlikely that they would have the capacity to continue to supply 5p a gallon oil for those non-pleasure craft still entitled to use it. Most users of the latter would get their diesel oil from other distributors, while a minority, e.g. a few inshore fishermen unable to do this, may suffer the cash flow disadvantage of having to pay the full rate and claim the duty back later. There could be a problem the other way round in some of the remoter parts where there was very little pleasure yachting. If those supplying diesel oil to vessels were unwilling because of lack of demand to supply full rate oil, pleasure craft would have no ready source of supply of the oil without which they could not legally run.

#### Enforcement

7. The control over the road fuel system depends on the diesel oil for non-road use being chemically marked and dyed, and on spot checks on road vehicles. Because rebated oil can be used in road vehicles, and is available to many vehicle users, there is a long-standing problem of evasion and fraud. But at least the marker system means that if the vehicle of an evader is stopped by us, detection is certain and immediate. To operate a similar control on pleasure craft we would need to prescribe that all commercial marine diesel not for use by pleasure craft should be marked. Unfortunately (from the point of view of revenue control) the larger pleasure vessels tend to be fitted for safety reasons with fuel inlets so constructed



that sampling could not be done without dismantling the fuel lines leading to the engine. Because of the safety implications for sea-going craft it would be most unwise for us to sample in this manner. The certainty of the marker system would also be lacking, since pleasure craft may legitimately fuel with marked diesel outside UK jurisdiction, e.g. in the Republic of Ireland, where the same marker is in use as in the UK. Any trace of marker discovered in a subsequent spot check could always be blamed on the foreign fuel, and this would be hard to disprove. If we required the use of markers, and used our patrol boats to stop pleasure vessels for checking, there could well be political criticism of our diverting our preventive resources from anti-smuggling work to checking the fuel supply of vessels when stopping them outside harbours and marinas. Control would have to rest mainly on land-based inspection at marinas and other sources of supply. At best our control would be feeble and likely to lead to widespread evasion.

#### International Aspects

8. No other EC Member State taxes diesel for pleasure craft at the same rate as diesel for road vehicles, except those countries like Italy which charge a low rate of duty on all diesel whatever its use. We are obliged by international agreement to allow duty-free admission of fuel in the standard tanks of any temporary visitor's boat. This suggests that the only practical system would be to refuse any export relief on fuel in the tanks of departing vessels, while not charging duty on fuel in the tanks of any arriving vessel, even if British based. This is already the administrative practice for vehicles. Many pleasure craft based in Northern Ireland would therefore find it easy to avoid the duty by fuelling in the Irish Republic. For those vessels based on the south coast of England, special trips to fuel up in France would be economic only for the very largest vessels; but patterns of leisure use could change, so that fuelling abroad became common. To some degree, people like to go out of their way to avoid tax and then boast that they have done so.

*quite a  
you for  
Cox!*



Timing and Legal Considerations

9. Many aspects of the extended tax would require consultation, e.g. with the oil companies and those running marinas and other fuelling points in relation to the provision of the fuel; and with boating interests in order to arrive at fair and equitable definitions of pleasure craft. It would be prudent to draw up the legislation in such a way as to enable the definition of pleasure craft to be altered by statutory instrument and to allow provision of detailed controls, including some limits on foreign fuelling, by regulation. Provision would also be needed to ensure that vessels departing for foreign were not entitled to relief on any oil in their tanks. Hire firms will have set their prices for the 1987 season well before the Budget. All these considerations suggest that introduction of the new duty would have to be timed as to miss the 1987 summer season.

Conclusion

10. Whether it is worth going ahead with an extension to the oil duty of this character depends on whether the difficulties are worth overcoming for the sake of the yield. The principal problems are anomalies and unfair competition at the borderline; creating a need for supplies at two possible rates of duty, with the probability that in some locations boat users could not get the type they needed; feeble control making a considerable level of evasion likely; and avoidance by fuelling abroad. If the yield were substantial, it could be argued that these were difficulties either to be overcome or accepted. But uncertain though our estimates are, the yield could not possibly exceed £30 million a year, and is more likely to be half that. For such a small yield, our recommendation is that the problems of the duty are such that it is not worth pursuing.

PJL

P Jefferson Smith





Inland Revenue

Policy Division  
Somerset House

28

FROM: B T HOUGHTON  
12 DECEMBER 1986

FINANCIAL SECRETARY

FINANCE BILL STARTER NO. 169: INHERITANCE TAX: LIFE TENANTS

1. Mr Thompson's submission below weighs carefully the arguments for and against accepting the proposal of the Historic Houses Association that the law should be changed so that Calke Abbey type problems (or at least some of them) can be avoided for the future.
2. Your predecessor went carefully over the ground earlier this year and came to the conclusion that no action should be taken on this proposal.
3. Since then there have been some changes which affect the balance of the arguments:-
  - i. support has grown stronger for the HHA proposal and it now features as first priority in their representations;

---

cc	PS/Chancellor of the Exchequer	Chairman
	PS/Chief Secretary	Mr Isaac
	PS/Economic Secretary	Mr Painter
	PS/Minister of State	Mr Houghton
	Sir P Middleton	Mr Calder
	Mr Cassell	Mr Lawrance
	Mr Monger	Mr Cleave
	Mr Scholar	Mr Furey
	Miss Sinclair	Mr Gonzalez
	Mr Cropper	Mr Brown
	Mr Haigh	Mr Johns
	Mr Graham (Parliamentary Counsel)	Mr Kent
		Mr Thompson
		Mr Hamilton
		Mr McKean
		Mr Denton
		Mr Lakhanpaul
		PS/IR



- ii. our reservations about the merits and repercussions of the proposal are somewhat less;
- iii. more weight should perhaps now be given to the practical help to the heritage which the proposal would give (potentially 17 identified cases could benefit and possibly a further 50-60 overall).

4. If Ministers felt that it would be helpful to offer something for the heritage in the coming Bill, this proposal would serve very well and the HHA and the associated bodies would be appreciative. I would however suggest that we should hold the line, as Mr Thompson suggests, on CGT base value and the limited extension for the period of variation of trusts (from two years to three only where the intervention of the Courts is needed).

*BTH*

B T HOUGHTON





FROM: H B THOMPSON

DATE: 12 DECEMBER 1986

1. Mr Houghton
2. Financial Secretary

*17 see covering note  
in 17/12*

Finance Bill Starter No.169

Inheritance Tax

Creation of Heritage Maintenance Fund  
on the death of a life tenant

1. The proposals of the Historic Houses Association (HHA) for an inheritance tax exemption to deal with what they call the "life tenant problem" were discussed at your meeting with officials on 14 November. We promised to supply more background information and to give the matter further consideration as a Budget Starter for 1987. We have deferred this report, with the agreement of your private office, so that it could reflect our discussion of the point with the HHA in the context of their formal Budget Representations. A copy of the representations is attached. We discussed them with the HHA on 26 November.

---

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Monger  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Haigh  
Mr Graham (Parliamentary  
Counsel)

Chairman  
Mr Isaac  
Mr Painter  
Mr Houghton  
Mr Calder  
Mr Lawrance  
Mr Cleave  
Mr Furey  
Mr Gonzalez  
Mr Brown  
Mr Johns  
Mr Kent  
Mr Thompson  
Mr Hamilton  
Mr McKean  
Mr Denton  
Mr Lakhanpaul  
PS/IR



2. Attached<sup>\*</sup> are copies of my note of 10 March 1986 to your predecessor, Mr Williams's note of 11 March recording Mr Moore's decision not to adopt the proposal, and a paper by Mr Jeremy Benson, the Chairman of the Tax Group of English Heritage. Paragraphs 2 to 12 of the 10 March note discuss the "life tenant problem" against the background of the Benson paper.

3. You will see that your predecessor asked us to give consideration to the handling of the lobby after the Budget so that they could be made fully aware of the reasons for no action being taken. Our efforts in this direction bore no fruit. Amendments were again tabled at Committee and Report and as you know the HHA are continuing to press the point.

#### THE PROPOSAL

4. The HHA invite you to allow a trust to be varied on the death of a life tenant, to produce a more tax-efficient devolution of the property by redirecting it into a heritage maintenance fund.

5. An existing general provision allows a testator's disposition to be altered within two years of his death without risk of a double tax charge (once on the death and again on the transfer of value made by the alteration). Tax is levied as if the deceased had willed the property directly to the new owner. If the new owner is a heritage maintenance fund, or one of the other privileged heritage and charitable bodies, no tax is payable.

6. The HHA want a corresponding provision for property held in an interest in possession trust. Until 1985 they wanted this for all heritage destinations. They now say they want it for redirection to maintenance funds only. They also want the two year time limit to be relaxed, for the existing provision as well as the new one.

#### THE REASONS FOR THE PROPOSAL

7. The existing relief for redirection of an inheritance of property reflects the facts that you cannot redirect property

\* Top copy only



until you know it will come to you, and you do not necessarily know that until the previous owner dies.

8. There is no corresponding provision for IIP trust property because the next owner knows in advance that he will inherit. He can disclaim or redirect in advance. There is no need for him to wait until his predecessor dies, and no reason to give him a second chance if he does. The HHA case is that this analysis is over simplified. There are often practical obstacles that impede effective redirection of the succession while a life tenant is alive. The absence of a post death opportunity can prevent, or at any rate discourage, the establishment of a maintenance fund.

#### THE MERITS OF THE PROPOSAL

9. The analysis of the merits of the proposal in paragraphs 9 and 10 of my note of 10 March remains valid. But there are important changes of emphasis that need to be taken into account.

10. The proposed facility is not a complete cure for the problem, and the intellectual arguments for the facility are no stronger. But the lobby present them rather differently. They no longer argue that there will be many maintenance funds set up by this route. All they hope for is that it will tip the balance of the decision in a few cases. Jeremy Benson now contends that the facility would be worthwhile if it prevented only one expensive rescue call on the National Heritage Memorial Fund. That is true so far as it goes. The setting up of a maintenance fund carries an obligation (unrelated to the size of the fund) to keep the heritage property in good repair. The front end tax subsidy to the fund will be less than the cost of a direct subsidy for repair of the property after years of neglect. But that begs the question whether the creation of the facility would actually have such a dramatic long term effect on the overall cost to the Exchequer; that is impossible to predict. The cold analysis is still that there is no proven need for the facility.



There is a demonstrable use for the facility, but no more than a pious hope that it will be taken up.

11. The arguments have always had emotional overtones. These have gained some ground. The HHA campaign, spiced with a feeling of urgency created by the thought that the current favourable IHT climate might not long survive the present Parliament, has now gained such wide support that if Ministers continue to reject the proposal their only allies are likely to be those Opposition supporters who object to all IHT concessions as hand-outs to the wealthy.

12. The principal arguments against the proposal are its tax avoidance possibilities and the knock-on effects. We now place less emphasis on these aspects than we did.

13. The tax planning attractions lie principally in the opportunity to reduce or defer the IHT payable on the life tenant's total death estate; and in mitigation of capital gains tax (CGT) liability. There is a risk that the facility will be used by people who are more interested in tax mitigation than in supporting the heritage. The lobby sees this as a positive help to their case. They have now made it clear that tax planners are one of their prime targets. They find their efforts to promote maintenance funds are frustrated by owners' tax advisers, who consider the funds to be a poor tax planning tool. They hope these advisers will be prepared to recommend diversion of IIP property to a maintenance fund, after the death of a life tenant, for its tax mitigation advantages. Whatever one thinks of that line of reasoning, it must be accepted that the end result will be a genuine maintenance fund, set up with the aid of a tax relief given for that purpose. We no longer think it matters that the motive for establishing the fund may have been tainted by a wish to reduce inheritance tax. If the maintenance fund later turns out to be a fake, the recapture charges should give us a sufficient safeguard.

14. The CGT aspect does still cause us some concern. Item 4 in the HHA Budget representations annexed proposes that the CGT base



value of a maintenance fund asset should be uplifted when the settlor dies. This is a hardy annual, referred to in paragraph 13 of my March paper, which we assume Ministers will continue to reject. The life tenant proposal may produce a CGT base value uplift by the back door. Appendix 1 explains how this will happen. The effect already occurs when property owned outright is redirected to a maintenance fund. It could be prevented, but that would be much resented and would make the new facility unattractive. On balance, we think we can live with it.

15. The knock-on danger is that there might be calls for the concession to be extended so as to allow post-death redirection of IIP property to other exempt bodies, and perhaps for redirection of settled property generally. This would be hard to resist on purely technical grounds <sup>to</sup> if the root reason for the maintenance fund concession is seen/lie in the difficulty of acting in the life tenant's lifetime. But if Ministers are prepared to say firmly that they regard maintenance funds as a uniquely deserving case, we now think there is a fair prospect of resisting a knock-on effect.

16. The nearest case to the maintenance fund is the redirection of property to an exempt heritage body. Before last year the HHA did want to cover this. They may have abandoned it for tactical reasons with the intention of reviving it later. But we think they have now made so much play with the special virtues of maintenance funds that they could not respectably resurrect a claim for the heritage bodies - at any rate for a few years.

#### LENGTH OF PERIOD

17. If Ministers wish to grant the proposed facility it will be necessary to decide the length of the period to be allowed for redirection.

18. The existing provisions allow redirection of property within two years after the relevant death. Item 1 in the HHA representations proposes extending this period to 3 years, with power for the Revenue to waive the time limit if they think fit



where property passes to a maintenance fund. It is not easy to argue against the generalisations in paragraph (3) of the HHA submission. But we know of no case where an application has failed through failure to complete within the two year time limit. Moreover it seems clear that this point is being taken primarily because a period of more than two years may be needed in the IIP cases. We see no need for action in the general area, but will of course go into the point in more detail if you wish.

19. The arguments have more force in the IIP area, where there is more likely to be an occasional need for Court intervention and Court cases are likely to be more complex. We recommend that the normal time limit should be two years, with an extension to three in cases where application to the Court is needed. We think a fixed period is better than an open-ended administrative discretion and (having discussed the point with the HHA) we also think that three years should be enough. The transitional provisions in the Finance Act 1982 contain a precedent for allowing an extra year to complete a transaction when the intervention of the Courts is required.

#### RECAPTURE CHARGES

20. The recapture charges when property leaves a maintenance fund sometimes depend on the cumulated giving of the settlor. We are studying whether this will be appropriate for maintenance funds set up under the proposed facility. Special charging rules may be needed, but there should be no insurmountable problem.

#### SUMMARY AND COST

21. The HHA proposal is that trust property where there is an interest in possession should be exempted from IHT on the death of a life tenant if the property becomes subject to the trusts of a heritage maintenance fund within a limited period after the death (or such longer period as may be allowed).

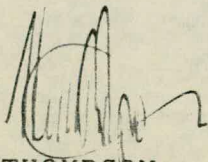


22. There is still no proven need for the facility, which will benefit only a handful of cases. But the proposal is gaining considerable sympathy from influential heritage supporters and the avoidance risks now seem containable. The cost is not readily quantifiable. Cases will be infrequent, but costs could be substantial when cases do arise. The average IHT cost for maintenance funds of the size we have dealt with recently would be well under £200,000, but the cost in a case like Calke Abbey could run to several millions. Legislation would take up to 2 pages, or up to 1 page if special recapture charge provisions are not needed.

23. This seems to be the only runner in this year's HHA Budget representations. If Ministers are disposed to concede, we shall be glad to know whether you are content that

- there should be no interference with the normal rule that the CGT base value of trust property is uplifted when a life tenant dies (paragraph 14);
- the period allowed for variation of the trusts should be two years, extended to three where the intervention of the Courts is needed (paragraph 19).

If so, we should be grateful for your authority to offer Parliamentary Counsel provisional instructions pending completion of our study of the recapture charge rules (paragraph 20), on which we shall of course report to you further in due course.



H B THOMPSON



APPENDIX 1

CGT Base value uplift - paragraph 14

1. When an outright owner or a life tenant dies, no CGT is payable and the CGT base value of property is uplifted to the current value. This is because the capital gains during the deceased's lifetime are subject to IHT as part of his death estate, and it would be wrong to tax the same gain twice.

2. When a maintenance fund is set up in the lifetime of an owner or a life tenant with the aid of CGT "hold-over" relief, the CGT base value is the transferor's acquisition value. This is not affected by the subsequent death of the owner or life tenant. So if the sequence is

- IIP trust transfers property to maintenance fund, with consequent termination of life tenant's life interest;
- life tenant dies;
- maintenance fund sells the property;

CGT is payable at the time of the sale on the rise in value since the time the IIP trust acquired the property. That is right, since the pre-death gain was not in the life tenant's IHT death estate.

3. If we allow IHT-free redirection of IIP trust property to a maintenance fund after the death of the life tenant, the base value uplift described in paragraph 1 will be available, even though no IHT will be payable on the death. The pre-death gains will thus escape both IHT and CGT.

4. This double relief will not be new. It is already given when property owned outright is redirected to a maintenance fund after the death of the owner.





FROM: APS/Minister of State

DATE: 15 December 1986

MR P HOGG

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
PS/Inland Revenue  
PS/Customs & Excise  
Mr Graham - Parly Counsel

**1987 FINANCE BILL STARTER No 19: REPAYMENT OF IMPORT VAT TO  
COMMUNITY TRADERS**

The Minister of State was grateful for your minute of 8 December.  
He is content for an appropriate clause to be drafted.

*Deborah Francis.*

**MISS D L FRANCIS**  
Assistant Private Secretary





FROM: N WILLIAMS  
DATE: 16 December 1986

MR HOUGHTON IR

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Monger  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Haigh  
Mr Graham OPC

**FINANCE BILL STARTER NO. 169: INHERITANCE TAX: LIFE TENANTS**

1. The Financial Secretary was most grateful for your note of 12 December covering Mr Thompson's submission of the same date.

2. The Financial Secretary would like this Starter to be included in the Finance Bill. He is content with Mr Thompson's recommendations as summarised on paragraph 23 of his submission to the effect that;

(i) there should be no interference with the normal rule that the CGT base value of trust property is uplifted when a life tenant dies.

(ii) the period allowed for variation of the trusts should be two years, extended to three where the intervention of the Courts is needed.



3. The Financial Secretary is, therefore, also content for you to give Parliamentary Counsel provisional instructions on this basis, pending completion of your study of the recapture charge rules. (paragraph 20 of Mr Thompson's submission refers).

A handwritten signature in cursive script, appearing to read 'Nigel Williams', with a long horizontal stroke extending to the right.

**NIGEL WILLIAMS**  
(Assistant Private Secretary)



Confidential

Further letter  
expected soon.  
No need to reply now.**DEPARTMENT OF TRANSPORT: MR SPICER TO MINISTER OF STATE - 15 DECEMBER**

Mr Spicer's letter lists six potential starters for the Finance Bill.

- (1) New taxation class for recovery vehicles
- (2) Clarification of and increase in penalties for vehicle licensing and registration offences
- (3) Increases in back duty payable on VED (Mr Spicer identified 3 options; he is discussing with the Home Office which one should be put forward)
- (4) Dishonoured cheques: increase maximum penalty for failure to surrender vehicle excise licence
- (5) Dishonoured cheques: provision for the Department to claim duty lost while the licence was held by the offender
- (6) Trade licensing - technical adjustment to the 1986 Finance Act.

The Minister of State responded on 15 January advising that on (1) to (4) he was content in principle to include the measures but subject to space in the Bill. On (5) and (6) which were included on a provisional basis by Transport, he noted that Mr Spicer would write again if he wished to proceed with them. We now expect a further letter shortly.





Inland Revenue

Policy Division  
Somerset House

FROM: H B THOMPSON

DATE: 5 MARCH 1987

1. MR HOUGHTON *5/3.*
2. FINANCIAL SECRETARY

Finance Bill 1987: Arts and Heritage Concessions  
Starter No.187: IHT - Acceptance in Lieu

1. We understand Mr Luce is writing to you confirming his agreement to the proposal discussed when you met him this morning.
2. The proposal is that where property is accepted in lieu of inheritance tax, capital transfer tax or estate duty (and interest on those taxes) the offeror should have the option of choosing between the present arrangements and an arrangement under which no interest would be charged between the date of the

cc PS/Chancellor —  
 PS/Chief Secretary  
 PS/Economic Secretary  
 PS/Minister of State  
 Sir P Middleton  
 Mr Cassell  
 Mr Scholar  
 Mr Gilmore  
 Miss Sinclair  
 Mr Burr  
 Mr Walters  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Tyrie  
 Mr Haigh  
 Mr Graham (Parl.Counsel)

Chairman  
 Mr Isaac  
 Mr Painter  
 Mr Houghton  
 Mr Cleave  
 Mr Scott  
 Mr Furey  
 Mr Gonzalez  
 Mr C Brown  
 Mr Johns  
 Mr Calder  
 Mr Lawrance  
 Mr Walker  
 Mr Kent  
 Mr McKean  
 Mr Thompson  
 Mr Battersby  
 Mr Denton  
 Mr Lakhanpaul  
 Mr Wright  
 Miss Barlow  
 PS/IR



# BUDGET

## CONFIDENTIAL

offer and the date of acceptance but the amount of tax satisfied would be calculated from the market value of the property at the date of the offer and not (as now) the date of acceptance.

3. Decisions are needed on some points of detail before we can instruct Parliamentary Counsel. They affect the timing of the choice, the period for which the option is to be open, the arrangements if an offer is rejected or withdrawn or the option period expires, and the entry into force arrangements.

### Timing of choice

4. Offerors cannot always be expected to make an informed choice before two valuations have been made and agreed: one for the date of offer and one for the date on which the property will be formally accepted. We therefore think that the option must be exercisable at any time before the date of formal acceptance.

### Period for which option is open

5. We suggest that a time limit should be put on the availability of the offer date basis so as to discourage deliberate procrastination by offerors - more particularly when income bearing property is involved (since the offeror will in the normal course retain the income until acceptance of the item). Some flexibility is however desirable to cope with cases where negotiations take a long time but there is no deliberate procrastination. We suggest that the offer date basis should remain available for two years after the date of the offer, and thereafter be terminable by 6 months notice from the Revenue.

### Expiry of Option; rejection or withdrawal of offer

6. We suggest that if the option expires, the property should continue to be acceptable on the present basis, with full interest on the unpaid tax from the date it became due until the date of acceptance.



# BUDGET

## CONFIDENTIAL

7. We think that if an offer is rejected or withdrawn full interest must be paid for the period from the due date until the tax is finally settled even if the offeror chose the offer date basis at the time he made the offer. Remission of interest while the offer is under consideration would lead to frivolous claims.

### Entry into force

8. We see no reason why the new arrangement should not be made available for cases now in the pipeline, and accordingly suggest that the provision should take effect for acceptances on and after Budget Day.

### Cost

9. We estimate that the cost should not be more than the £0.5 million estimated for Mr Luce's original proposal.

### Length of Legislation

10. Subject to the views of Parliamentary Counsel, we think the legislation will take less than 1 page in the Bill.

### Publicity

11. This proposal, along with that for heritage maintenance funds, will attract interest from the heritage lobby and we are intending to give information about how the proposals will work in our Budget Day IHT Press Release. The Office of Arts and Libraries have in preparation a leaflet on Acceptance in Lieu and would like to include in it more detailed guidance about how the option will work. This is likely to be published some time after the Budget. We take it you have no objection to this.

12. We shall be glad to know whether you are content for us to instruct Parliamentary Counsel on these lines (which we understand are generally acceptable to the Office of Arts and Libraries).



H B THOMPSON





FROM: N WILLIAMS  
DATE: 6 March 1987

MR THOMPSON IR

cc PS/Chancellor  
PS/Minister of State  
Sir P Middleton  
Mr Scholar  
Mr Gilmore  
Mr Walters  
Mr Cropper  
Mr Graham OPC  
Mr Houghton IR  
PS/IR

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**  
**STARTER No 187: IHT - Acceptance in Lieu**

1. The Financial Secretary was grateful for your minute of 5 March.
2. He is content for you to instruct Parliamentary Counsel along the lines described in your minute.
3. He is also content for information on how the proposals will work to be incorporated in the Budget Day IHT Press Release and in the OAL leaflet in due course.

**NIGEL WILLIAMS**  
(Assistant Private Secretary)



E.22 We understand the Chancellor wants <sup>to consider</sup> a short piece in the Speech on two heritage items. We suggest the following paragraph after E.21:

"I also propose two inheritance tax measures to help the heritage. Settled property that is put into a heritage maintenance fund within two years after the death of a life tenant will not be taxed on the death. And I propose to alter the arrangements for acceptance of property in lieu of tax so that at the owner's option the special price will be related to the value of the property at the date of the offer and interest on the tax will cease to run on that date.





OFFICE OF ARTS AND LIBRARIES  
 Great George Street  
 London SW1P 3AL  
 Telephone 01-270 5929

From the Minister for the Arts

C87/1076

The Rt Hon Norman Lamont MP  
 Financial Secretary  
 Treasury Chambers  
 London SW1

FINANCIAL SECRETARY	
REC.	- 6 MAR 1987
<del>ACTION</del>	PS/chancellor PS/MST
COMES TO	PS/CST Sir P. Middleton
	MR scholar MR Gilmore
	MR Walters
	MR Cropper
	MR Graham (opc)
	MR Houghton etc
	PS/IR

6 March 1987

Dear Financial Secretary

WAIVING OF INTEREST CHARGES IN AIL OFFERS

When we met yesterday you outlined a proposal which would give, in a modified form, the sort of concession I had sought in my letters to the Chancellor of 8 January and 20 February.

As I understand it, the person offering an item in lieu would have the option, exercisable at any time but most probably just before acceptance, of having interest waived provided the object on offer remained valued at its offer price. As an alternative the offerer could have the item re-valued; the "special price" would then be calculated on the new valuation, but the offerer would have to pay any outstanding interest charges. This facility would run for two years, terminable thereafter by six months' notice from the Inland Revenue.

I am grateful for your agreement to such a change. I think it presents an acceptable choice to offerers, and should persuade the heritage world that we take seriously the problems which arise from the fact that some cases unavoidably take many months to complete. In due course your officials will no doubt wish to discuss with mine the presentation of this new arrangement.

Yours sincerely

Michael Storch

RICHARD LUCE

Approved by the Minister  
 and signed in his absence





FROM: N WILLIAMS  
DATE: 4 March 1987

Tony  
PS A

MR HOUGHTON IR

17290

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Scholar  
Mr Gilmore  
Mr Burr  
Mr Walters  
Mr Cropper  
PS/IR

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**

1. Subsequent to the Financial Secretary's minute of 26 February, this subject has now been discussed by Ministers.
2. This is to confirm that it was decided that offerors should be given the option to choose between the status quo OR the value at the date of offer and no interest.
3. You should therefore proceed on the basis that this is to be included as a Budget measure, with the necessary legislation to follow in the Finance Bill.
4. The Financial Secretary is to have a meeting with Mr Luce, at which you will be present, (now arranged for tomorrow morning) to discuss this subject with him.

**NIGEL WILLIAMS**  
(Assistant Private Secretary)





cc Chief Secretary  
 Financial Secretary  
 Economic Secretary  
 Minister of State  
 Sir P Middleton  
 Mr Cassell  
 Mr Scholar  
 Mr Gilmore  
 Miss Sinclair  
 Mr Burr  
 Mr Walters  
 Mr Cropper  
 PS/IR  
 Mr D Denton - IR  
 PS/C&E

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-270 3000

3 March 1987

Rt Hon Richard Luce MP  
 Minister for the Arts  
 Office of Arts and Libraries  
 Great George Street  
 LONDON  
 SW1

*Richard Luce*

Thank you for your letters of 8 January and 20 February, giving me your detailed suggestions for tax measures in the Budget.

You will not expect me to respond point by point but I do find it extremely valuable to have the comments and suggestions of my colleagues at an early stage.

I am copying this letter, as yours, to Nicholas Ridley.

*Nigel Lawson*

**NIGEL LAWSON**



*Confidential***OFFICE OF ARTS AND LIBRARIES: MR LUCE - 8 JANUARY**

In the light of the charity-giving changes of the last Budget, advocating no major or expensive innovations.

**Acceptance in Lieu**

When heritage assets are accepted in lieu of IHT on other property, they are taken at their current value. Interest is payable on the tax debt from the date of charge until the date of acceptance. Mr Luce is asking for this interest to be waived for a period of two years or more from the date of offer, irrespective of whether the offer is eventually accepted.

There are objections of principle to this idea which could have knock-on effects. The levying of interest is designed to reflect the commercial reality of who has the use of monies properly due to the Exchequer and it would be inappropriate and unfair for the interest charge to depend on whether the tax liability is settled in cash or in kind. A concession for AIL could lead to pressure for an interest holiday for any period during which a payment delay was arguably connected with valuation negotiations. Moreover, it ought to follow that the assets should be taken at their value on the date of offer. We think (and the HHA have acknowledged) that this would work against owners more often than not.

The Chancellor and Chief Secretary are sympathetic to a concession. Following Inland Revenue's (Mr Denton) submission to the Chancellor of 19 January, the Financial Secretary was asked to look at the issue. His recommendation (Mr Williams' minute of 11 February) advises against any concession.

**BES: Films**

Mr Luce supports any changes to qualification rules which encourage film production. It was agreed at Overview on 9 February that post production distribution activities should count towards the three year qualifying period for BES relief.

**Employment status for tax purposes - actors and theatre managers**

Mr Luce is concerned at shift from Schedule D to PAYE for actors and theatre managers.

Over the years it has become clear that many people in the entertainments industry previously treated as self-employed are engaged on terms which suggest that they are



employees. The Inland Revenue has looked closely at their standard contracts. They have concluded that in general they create an employer/employee relationship; a view backed by legal authority.

Because of large numbers involved the Revenue has sought a gradual transition to Schedule E. This involves treating all newcomers to the industry under standard contracts as taxable as employees. Those who have been in the profession for a long time and based their financial plans around self-employment status are currently allowed to remain as taxable under Schedule D. This approach denies no-one their due under the law and avoids applying PAYE retrospectively.

### VAT treatment of arts bodies

Mr Luce seeks a sympathetic approach. There has been no change in VAT rules for arts bodies. The requirement has always existed to distinguish between business and non-business activities for apportionment of input tax. Customs administer this as reasonably and fairly as possible.



DRAFT

DRAFT LETTER FROM THE CHANCELLOR OF THE EXCHEQUER

To: Rt Hon Richard Luce MP  
Minister for the Arts  
Office of Arts and Libraries  
Great George Street  
LONDON SW1

*OK*

*and 20 February*

Thank you for your letters of 8 January, giving me your detailed suggestions for tax measures in the Budget.

You will not expect me to respond point by point but I do find it extremely valuable to have the comments and suggestions of my colleagues at an early stage.

*I am copying this letter, as yours, to Nicholas Ridley.*

[NL]



Shares the Treasury's priority to reduce the burden of personal taxation. But raises the following points:

**Higher rate income tax thresholds should be fully indexed in 1987**

Mr Channon's point about the effect of lower tax rates in the US on the willingness of senior managers to work in the UK is a familiar one. The issue was mentioned in, inter alia, Mr Isaac's minute of 17 December to the Chancellor on "Top Incomes: Top Rates and Tax Collection". Treasury Ministers are, of course, considering the higher rate structure for 1987-88 in the context of Overview.

**CT rate should be set well in advance; basic rate should be reduced**

It was agreed at Chevening that all companies and Building Societies should be moved on to a 9 month basis for CT and that CT rates should continue to be set in advance.

**Tax relief on pre-trading R&D incurred by a consortium**

Considered by Ministers and discarded.

**Rules for scientific research allowance too narrow and uncertain**

Scientific research defined as "any activities in the fields of natural or applied science for the extension of knowledge" (S.94, Capital Allowances Act 1986). The research has to be related to the claimant's trade.

Allowances are made for three types of expenditure

- (a) revenue expenditure;
- (b) payment to scientific research associations etc; and
- (c) capital expenditure.

Mr Channon quotes Section 174 of the US Internal Revenue Code. This refers to "research or experimental expenditures". This is amplified in Regulation 1.174-2 of the Internal Revenue Code to mean "expenditure incurred in connection with the taxpayer's trade or business which represent research and development costs in the experimental or laboratory sense. The term includes generally all such costs incident to the development of an experimental or pilot model, a plant process, a product, a formula, an invention, or similar property and the improvement of already existing property of the type mentioned".



We understand that the US Tax Reform Act 1986 has made the definition of "qualified research" more explicit whilst significantly curtailing the eligible research activities. A consolidated version of the amended provisions has not yet been seen. Subject to that, it is not clear that the US definition is significantly wider than the UK definition of qualifying scientific research. For example, the US definition explicitly excludes oil exploration expenditure on which the UK gives relief.

No examples of projects that might have been undertaken but for the way the UK definition works have been forthcoming.

Since 1945 only eight cases involving the definition of scientific research have failed to be resolved between taxpayers and Inland Revenue. Those have been referred to the statutory arbiters - nowadays the Secretary of State for Trade and Industry. From these cases certain broad principles derived:

- basic or fundamental research, either into new areas or applying new principles into established areas of research will certainly be scientific research;
- applied research, applying existing principles into established areas may be scientific research depending on the facts; and
- development, applying the results of both basic and applied research would not normally be scientific research.

Regulations 1.174-2 are detailed and extensive; comparable material would be unsuitable for incorporation in UK law. If helpful, an issue of Statement of Practice could be considered. But dearth of cases involving disputes suggest this unlikely to be cost-effective.

### Abolish or reduce stamp duty on shares

Mr Channon wants a further reduction in the rate of duty on shares to  $\frac{1}{4}$  per cent to help the City's competitive position. He claims that even with a  $\frac{1}{2}$  per cent tax transaction costs are still higher than in other financial centres apart from Tokyo. He would ideally like to see duty on shares abolished but recognises that the revenue loss would probably be too great. A  $\frac{1}{4}$  per cent rate for shares would cost £300 million in 1987-88 taking account of offsets resulting from an increased volume of turnover - the dynamic effects would be smaller than last year because the suggested rate of change is smaller. Abolition would cost £780 million (70 per cent of the cost of a cut in basic rate by 1p).

The Chancellor has indicated (Mr Kuczys' minute of 31 December 1986) that it is too soon to make any further moves on stamp duty rate.



### Unit trusts tax status

As Mr Channon points out, changes to be introduced under the Financial Services Act require changes in the provisions defined in the tax status of the trusts.

The Financial Secretary has authorised the preparation of the necessary legislation and drafting (on which DTI have been consulted) is well in hand.

### Unit trust instrument duty

This duty - which Mr Channon wants to see abolished - is at a  $\frac{1}{4}$  per cent rate on all property put into a unit trust. Cost of abolition: £30 million.

The duty has been seen as the counter-part to the 1 per cent capital duty paid by investment trusts and other companies on new equity capital. If capital duty were to be abolished (cost £190 million) unit trust duty should also go, unless it was thought that this would give the wrong signals about institutional investment. Abolishing unit trust duty whilst at the same time retaining capital duty would give unit trusts a marketing advantage over investment trusts.

DTI say that unit trusts (particularly money market funds) are handicapped in competing with other investment media. In fact, other investment media (notably insurance companies) see unit trusts as having fiscal advantages over them - authorised unit trusts are exempt on capital gains.

### Life assurance duty

Mr Channon claims that this stamp duty - 50p per £1000 assured - distorts competition between savings media and discriminates against life assurance companies.

The duty brings in £70 million. It also accounts for over 15 per cent of the total tax it is estimated that life companies pay, which has been falling sharply in real terms despite the industry's growth. Life companies are a relatively under-taxed sector and there is an argument for linking any change to the life assurance duty with any wider corporation tax changes.



### Life assurance duty - reinsurance

The 50p per £1000 duty also applies to the reinsurance in the UK of life policies written abroad. There is some evidence to suggest that this duty does inhibit British companies in competing for genuine risk reinsurance contracts. The DTI are probably right to say that the cost of exempting these policies would not be significant (about £1 million).

However, UK companies often take on foreign reinsurance risks for tax avoidance reasons - it is a way of acquiring additional relief for management expenses. Again, there is an argument for not providing stamp duty exemptions until wider corporation tax changes can be made.

### Tax treatment of venture capital fund managers' profits

The British Venture Capital Association has been discussing with the Revenue arrangements for the taxation of on-shore venture capital funds. As Mr Channon indicates it now seems likely that venture capitalists could operate on-shore through limited partnerships and avoid CGT problems originally envisaged.

The Revenue have now confirmed that on the basis of the proposals made by the BVCA, fund managers could receive gains on shares without incurring an income tax charge under S79 FA 1972. The various other main issues have also been resolved in principle, and the Revenue are helping the BVCA on a few remaining points of detail concerning:

- (i) apportionment of capital gains amongst partners;
- (ii) management expenses;
- (iii) the business/trading status of the proposed partnerships.

### Disincorporation relief

Ministers have considered this proposal and have decided not to legislate this year.

### Dual resident companies

Mr Channon supports the abolition of double relief. Agreed for inclusion in Finance Bill, subject to result of consultation exercise.



### VAT: registration threshold

Mr Channon supports efforts to secure agreement at Community level to a new directive which permits a substantial increase in the turnover threshold above which firms must register. He proposes as a minimum, a Budget increase in line with inflation.

Draft VAT Directive on small and medium-sized enterprises proposes VAT threshold of 35,000 ecu (£25,000); was due to be implemented on 1 April 1987 but slippage now looks certain. UK would like an even higher limit, although given the difficulties of negotiating that, it seems very unlikely - even the present limit in the draft Directive will be challenged by other Member states. No likelihood of agreement being reached in time to make this change to the UK registration limit in Budget. Overview currently assuming revalorisation.

### VAT: compulsory deregistration for firms below VAT registration threshold

Mr Channon is against. Issue considered in Customs (Mr Howard) submission of 4 February to the Minister of State which advised that such a move would be contrary to EC law.

### Matches and mechanical lighter duties

Mr Channon is against abolition. Abolition was Starter 25 but dropped on 31 December 1986.



DRAFT LETTER FROM THE CHANCELLOR

To: Rt Hon Paul Channon MP  
Secretary of State for Trade & Industry  
Victoria Street  
LONDON SW1

1 Alex  
2 BIF Channon  
Meehir

Thank you for your letter <sup>of</sup> 18 December giving me your detailed suggestions for tax measures in the Budget.

You will not expect me to respond point by point but I do find it extremely valuable to have the comments and suggestions of my colleagues at an early stage.

Ch  
No part of writing

- you are seeing him  
late this week.

AAA

[NL]

right. Who does it  
for? -  
Psr discuss (again).

DRAFT  
REPLY  
(NOT  
SENT)





Platts.

Ch

BIF

This exercise  
apparently follows past  
precedent, but it seems  
dubious to me. Most of the  
answers are simply Budget  
acknowledgements, & I can  
see no reason why we  
shouldn't next year send  
these out as the letters arrive  
- into the build up a  
massive pile for the busiest  
pre-Budget time. AA





FROM: A W KUCZYS  
DATE: 4 March 1987

CHANCELLOR

**BILATERAL WITH MR CHANNON**

I think you want to tell Mr Channon about four aspects of the Budget.

**Pre-trading R&D**

2. Mr Channon included this in his Budget representations (his letter of 18 December). You and the FST looked very carefully at the proposal. You agree that there is a need for industry to do more (and better) R&D. But you are not persuaded that the pre-trading tax relief proposal is the right way forward.

**PRP and the public sector**

3. Mr Channon and Lord Young were co-sponsors of the Green Paper. You have already spoken to Lord Young.

4. You have decided to go ahead with tax relief for PRP, and will announce this in the Budget. The level of tax relief will be slightly more generous than in the Green Paper. But, as in the Green Paper, you have concluded that public sector employees should be completely excluded from relief. Difficult to draw the border line anywhere else. And would be worried about, eg, local authority direct labour organisations.

**Company capital gains**

5. At present, companies' gains, although charged to corporation tax, are charged at the CGT rate of 30 per cent by way of a complicated fraction. More logical to tax gains at marginal rates - 35 per cent for larger companies, the small companies rate



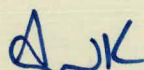


(set at same level as income tax basic rate) for smaller companies. At same time, allow companies for the first time to set ACT against tax on capital gains. Overall effect is slightly to increase the tax burden on companies - but some companies, including all small companies with capital gains, will benefit.

**Lloyds Reinsurance to close**

6. Mr Channon will have seen Peter Miller's letter and the Inland Revenue have now been in touch with DTI officials.

- What we are proposing is to bring treatment of Lloyds' provisions into line with that applied to commercial insurance companies'.
- Cannot allow Lloyd's names to fix their own tax liabilities.
- Inland Revenue will be consulting Lloyd's on details after Budget.
- [Ready to consider in the light of these consultations whether any transitional provisions necessary.]

  
A W KUCZYS



PRE TRADING R+D

PS/FST  
TO  
ELLIOTT  
26/2



*Copy of paper - waded  
of paper in here  
because contents  
back papers to this  
+ I did not want  
to split them up*

FROM: N WILLIAMS  
DATE: 26 February 1987

MR ELLIOTT IR

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir Peter Middleton  
Mr Monck  
Mr Burgner  
Mr Scholar  
Miss Sinclair  
Mr Ross Goobey  
Mr Cropper  
PS/IR

FINANCE BILL: STARTER 124 (DROPPED): PRE-TRADING R & D

1. The Financial Secretary was grateful for your minute of 20 February.
2. The Financial Secretary has discussed this with the Chancellor and it was decided not to write to Mr Channon.
3. The Chancellor will, however, have a word with Mr Channon before the Budget.

NIGEL WILLIAMS  
(Assistant Private Secretary)





Ask:  
could you  
perhaps  
try  
this  
better  
English?

Ch

## ACCEPTANCE IN LIEU

1. You wanted to see a sentence or two for the Budget speech, before deciding whether to include this or not. See draft below. Andrew suggests inserting a sentence at the start (he will provide) recalling the Government's good record on the heritage.

2. FST saw Mr Luce this morning. Mr Luce will let him have his reaction tomorrow (Friday) — we expect agreement (see note from Bereme below)

ChWk  
5/3



1 Top  
2 pupFROM: FINANCIAL SECRETARY  
DATE: 26 February 1987

CHANCELLOR

Ch

*All these discussions pay @ pm*

You said (16 Feb) you wd be happy to discuss this with CSTE FST. Prayers (after Peter Lilley & Michael Neubert have left) provides an opportunity.  
NB further letters (below) from Mr Luce and Mr Ridley.

*ANK*  
*26/2*

cc Chief Secretary  
Economic Secretary  
Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Scholar  
Mr Gilmore  
Miss Sinclair  
Mr Burr  
Mr Walters  
Mr Cropper  
PS/C&E

Mr Houghton IR  
PS/IR

## FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS

1. I have now had the opportunity to discuss this subject again with officials and Peter Cropper and I thought it might be helpful if I commented further at this stage.

*disagree*

2. I agree that properties can fall in value as well as rise, though I suspect that falls have been the exception for a long time. I continue to believe that to give offerors the option of the value at the date of the offer and no interest thereafter, or the status quo, is not likely to be well-received. My reason for thinking this is that I think they believe, as I do, that the option of value at acceptance works to their advantage. We could call their bluff but we may not gain many points for doing so.

3. Leaving all this aside, there are other arguments against:

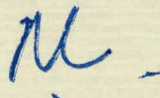
- the interest is payable on the same basis as interest on other IHT debts. It is not payable on the value of the heritage object itself. It is charged at an advantageous rate - 8% (one and a half percentage points below the income tax interest rate). This rate reflects the necessarily more protracted settlement of IHT liabilities generally;



**BUDGET: CONFIDENTIAL**

- a similar concession could be claimed in other cases where valuation of estate assets is protracted for reasons not connected with the heritage - eg when unquoted shares or bloodstock have to be valued;
- this proposal cannot be divorced from consideration of the heritage lobby's request for a more generous douceur in AIL cases (Richard Luce's letter of 20 February to <sup>you (immediately below)</sup> the Chancellor). Both proposals involve an increase in the cost of AIL - the first by way of tax relief; the latter by way of public expenditure. I think that they must be considered together when Richard Luce has formed a view on the douceur. Conceding the interest point will not stop them pressing for an increase in the douceur, indeed it will possibly bring the pressure forward (In my view the douceur arrangements are quite generous any way);
- we are already proposing help in the maintenance fund starter (number 169) which is specifically directed at the heritage lobby. This will allow interest in possession trust property to be exempt from IHT on the death of a life tenant if, by a post-death re-arrangement, it goes to a maintenance fund within two years after the death. (The Calke Abbey case). In addition, the heritage will benefit from the other changes proposed in IHT eg. the exemption of lifetime giving involving interest in possession and secondly the changes in rates and bands.

4. On balance I am against. Peter Cropper agrees. But I should be very happy to discuss.



**NORMAN LAMONT**



*Toby*



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

*b/f with  
advise p1*

Your ref:

The Rt Hon Nigel Lawson MP  
HM Treasury  
Parliament Street  
LONDON  
SW1

20 February 1987

CH/EXCHEQUER	
REC.	27 FEB 1987 <i>✓2/2.</i>
ACTION	MR DENTON-IR
COPIES TO	CST FST EST MST SIR P MIDDLETON
	MR CASSELL
	MR SCHOLAR
	MR GILMORE
	MISS SINCLAIR
	MR BURR
	MR WALTERS

Dear Chancellor

*MR CROPPER  
PSIR  
PS/CTE*

BUDGET 1987

I understand that a proposition that the list of bodies entitled to the "douceur" tax concession on private treaty sales of heritage land should be extended to include major voluntary bodies such as the Royal Society for the Protection of Birds has been advanced.

I am familiar with the usual housemaids baby arguments here that the cost would be small, that it would encourage landowners to give first refusal of land of exemptable quality to conservation bodies in the private sector and that the list of bodies approved could be policed. However, I do not support this proposal. I am strongly opposed to what amounts to nationalisation of land through tax reliefs.

*Yours sincerely*

*Isobel R. Q. We*

*pp*

NICHOLAS RIDLEY

*(Approved by the Secretary of State and signed in his absence.)*



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**OFFICE OF ARTS AND LIBRARIES**  
Great George Street  
London SW1P 3AL  
Telephone 01-270 5929

*From the Minister for the Arts*

C87/771

Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
LONDON SW1

20 February 1987

*Dear Chancellor,*

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**

Since I wrote to you on 8 January I have been under further pressure from the major heritage bodies to urge my Treasury colleagues to agree to the waiver of interest charges on objects offered in lieu of tax. As I said, this concession could win us considerable credit at relatively small cost. I very much hope, therefore, that you are still considering it as part of any package of small concessions in the Budget. The heritage world needs a positive sign from us that we continue to be sympathetic to their cause.

*Copy attached* You will have seen a letter from Lord Charteris and others in "The Times" arguing for an increase in the "douceur" for ALL cases to 50%. My officials are looking at this in consultation with DOE. There are of course public expenditure implications in any such change and I shall be writing separately in due course.

*Yours sincerely*

*Michael Staur*

RICHARD LUCE

*(Approved by Mr Luce & signed in his absence)*

H/EXCHEQUER	
REC.	23 FEB 1987 ✓ 23/2
ACTION	MR DENTON -IR
COPIES TO	CST FST EST MST SIR P MIDDLETON
	MR CASSELL MR SCHOLAR MR GILMORE MISS SINCLAIR MR BURR MR WALTERS MR CROPPER

*PS/IR  
PS/CtE*

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Tuesday, 3 February 1987

THE TIMES

## Art acceptance in lieu of tax

*From the Chairman of the  
National Heritage Memorial Fund  
and others*

Sir, Sir Denis Mahon (January 26) draws attention to the new role of the Museums and Galleries Commission in administering the arrangements for accepting a work of art in lieu of inheritance tax and stresses the need for these to be effective.

Lord Gowrie's achievement during 1985 in increasing the upper limit available for acceptances in lieu was very important. Nevertheless, serious obstacles remain in the way of an owner who is considering offering a work of art in lieu rather than selling it on the open market (most probably to an overseas buyer) as a means of funding his tax bill.

Negotiating an acceptance in lieu is a protracted business as difficult and specialised questions, both of quality and of value, have to be agreed. Under the present arrangements the offeror has to pay interest on the outstanding tax, currently at a rate of 8 per cent, while negotiations take place. Small wonder that some withdraw their offer after a while and others decide not to make one in the first place. A period free of interest for *bona-fide* offers is badly needed if the system is to flourish as it should.

The other change needed is to divide the benefit of the tax exemption on an accepted work of art 50-50 between the offeror and the State. At present the offeror gets only 25 per cent, which is inadequate. In 1981 the Education, Science and Arts Committee of the House of Commons recommended that it should be increased to 75 per cent. We do not go so far, but do recommend that it should be set at 50 per cent.

The Chancellor is no doubt being urged to look favourably on a number of major and costly schemes. May we through your columns ask him to find time to consider the modest but important proposals outlined above?

Yours faithfully,

CHARTERIS of AMISFIELD,

Chairman.

The National Heritage Memorial Fund.

NICHOLAS GOODISON

(Chairman, The National Art-Collections Fund),

MICHAEL SAUNDERS

WATSON

(President, The Historic Houses Association).

The National Heritage Memorial Fund.

10 St James's Street, SW1.

January 28.





28

Ch

You asked for the paragraph in the speech to be translated into English.

Andrew has done this, in consultation with Brian Houghton, and taken the opportunity to expand the passage somewhat.

It is incorporated in the new edition of the speech Andrew is sending you this weekend.

AK

6/3

*[Red scribble]*



CONFIDENTIAL

*Handwritten:* 24/2 A



2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref:

Your ref:

The Rt Hon Nigel Lawson MP  
HM Treasury  
Parliament Street  
LONDON  
SW1

CH/EX/REG	
REC.	20 FEB 1987 ✓20/2
ASST.	MR D. DENTON-IR
COPIES TO	CST FST EST MST SIR P MIDDLETON MR CASSELL MR SCHOLAR MR GILMORE MISS SINCLAIR MR BURR MR WALTERS MR CROPPER PS/IR PS/CTE

20 February 1987

Dear Chancellor

I have seen a copy of Richard Luce's letter to you of 8 January about possible tax concessions in the arts and heritage field in the next Budget.

As you know I am always cautious in suggesting further tax concessions for owners of heritage property, considering that they have benefitted like the rest of us from general reductions in taxation as well as from some specific concessions like zero-rate VAT on alterations to listed buildings. However I do think that Richard's particular point about the treatment of interest charges in relation to items accepted in lieu of tax is worthy of support. Representations on this issue have been made to me too and I agree with the convention that we could gain credit from the heritage lobby for what would be a relatively minor concession.

I am not so sure about the suggested review procedure, which looks rather cumbersome to me. I would prefer to see the waiver being initially for a tighter period of, say, nine months, with any extension to be agreed upon by Ministers closely monitoring the case. While I accept that some cases can take longer to process I regard nine months as being an adequate time for the majority to be completed. Perhaps officials should discuss the detail if the principle, to which I hope you will give serious consideration, is agreed.

I am copying this letter to Richard Luce.

*Yours sincerely*

*Isobel A. Gihne (Private Secretary)*

NICHOLAS RIDLEY

*(Approved by the Secretary of State in draft and signed in his absence.)*



PRAYERS



**Inland Revenue**

Policy Division  
Somerset House

413

BF when Ch sees

Channon

FROM: M J G ELLIOTT  
DATE: 20 February 1987

FINANCIAL SECRETARY

*Ch/FST wd be grateful for your news on this in the margin of prayers DWK 24/2*

ELLIOTT  
TO  
FST  
20/2

FINANCE BILL: STARTER 124 (DROPPED): PRE-TRADING R & D

1. We have been asked by DTI officials whether Mr Channon should expect a pre-Budget answer to his letter of 18 December on this R & D proposal, saying what Treasury Ministers have decided; or whether he and they will have to wait for the Budget.

2. We do not know whether this query was prompted by Mr Channon himself. It may simply be that the officials concerned worked pretty closely with us over a period preparing the "without prejudice" outline scheme of relief, and for that reason feel more involved with this proposal than with the others in Mr Channon's letter.

3. The question whether a reply should be sent to Mr Channon before the Budget is very much one for you and the Chancellor. There are two points which you may wish to keep in mind when considering this -

- First, there is a precedent; your predecessor wrote to Mr Channon last year before the Budget saying that action on these same R & D proposals would not be taken that year.

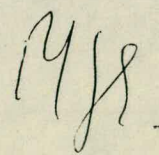
- c Chancellor
- Chief Secretary
- Economic Secretary
- Minister of State
- Sir Peter Middleton
- Mr Monck
- Mr Burgner
- Mr Scholar
- Miss Sinclair
- Mr Ross Goobey
- Mr Cropper

- Mr Painter
- Mr McGivern
- Mr Beighton
- Mr Pitts
- Mr Elliott
- Mr Driscoll
- Mrs Hubbard
- Miss Brand
- PS/IR



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- Second, there is a question of timing. The Ministerial E(RD) Committee, of which the Chief Secretary is a member, is meeting again on 25 February. We have seen a draft of a paper prepared for that meeting by the official (E(RD)(0)) committee: it includes a reference to the fact that "a proposal to treat R & D as a trading activity for tax purposes is currently before Treasury Ministers". The Chief Secretary will presumably want to take the line, if the point is raised, that he cannot comment on a Budgetary matter at this time. But he obviously could not properly take that line if a letter had earlier gone to Mr Channon, nor, perhaps, if one were to be sent later the same week.
4. This suggests that if a letter is to be sent it might be better for it not to go before next Monday week (2 March).
5. I attach a draft of the sort of reply which might be sent to Mr Channon if that is what you decide.
6. It seems likely that there will be pressure after the Budget and during the passage of the Finance Bill for improved tax reliefs for R & D. The PRT measure, starter 159, might be a peg for this, but we think that unlikely; and in any case starter 159 is clearly distinguishable from the wider R & D issue and provides no justification for action on it.



M J G ELLIOTT



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DRAFT LETTER TO  
SECRETARY OF STATE FOR TRADE AND INDUSTRY

1987 BUDGET: RESEARCH AND DEVELOPMENT

1. Nigel Lawson has asked me to write to you about the two proposals for this year's Budget relating to research and development which you made in your letter to him of 18 December.
2. Nigel and I have looked very carefully at these proposals, particularly the one for a tax relief for pre-trading R & D; and we have also, of course, seen the possible outline scheme worked up jointly by Revenue and DTI officials.
3. We certainly see R & D as an important and sensitive area which merits close attention. There is clearly a pressing need for industry to do more (and better) R & D in order to take advantage of current market opportunities, including highly competitive exchange rates.
4. Nevertheless, I am afraid we are not persuaded that the pre-trading tax relief proposal is the right way forward. I know that your officials have given the Revenue more evidence than was available this time last year to support the view that companies would actually respond positively to a tax relief of this kind by undertaking genuinely new R & D. But I believe this evidence is far from conclusive, and - while I understand the difficulty of guaranteeing, in advance, the success of a relief of this kind - the response really does seem very uncertain.
5. There are other factors to be taken into account as well. First, a relief on these lines would be a



step in the opposite direction from the 1984 business tax reforms, which were designed to lower rates of tax across the board and, at the same time, to remove from the system precisely the sort of distortions which special provisions of this kind would produce. Second, it is clear that we would need to write a number of restrictions into the relief (the outline scheme draws attention to this) not only to prevent it being used as a tax shelter, but also to ensure - so far as possible - that it was available only for genuinely new R & D. Inevitably, these restrictions (which would mean fairly complicated provisions) would not be popular and might swamp any welcome for the relief itself.

6. Our views on the definition of scientific research for purposes of the scientific research allowance are, I am afraid, little changed from last year. As you recognise, the Revenue have no evidence that the present definition is having a restrictive effect in practice; and here again I have to say that, in our view, the case for change has simply not been made out. I would of course be happy to look at any particular cases you have in mind where you feel the present rules are unduly restrictive.

7. I can assure you that this decision does not reflect any complacency over the UK's current R & D performance. In particular, we shall want to consider very carefully the findings of the international review which you mention in your letter. We hope that review may give us helpful information about the effectiveness of other countries' tax treatment of R & D. This is important, as our experience with the accelerated relief for capital expenditure clearly demonstrated that more investment did not always lead to more efficient and productive investment. Meanwhile, we must keep in mind that a very high proportion of existing R & D already qualifies for tax relief (most



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of it as an ordinary revenue deduction in computing profits). As a result of the business tax reforms of 1984, company profits are taxable only at 35%, - 29% in the case of many companies. Following the recent range of initiatives that have been announced - LINK for example - the onus really must be on industry to capitalise on these changes and improve its own R &D performance.

8. Nevertheless, as I have said, we shall be looking at all this very carefully in the light of the international study.

NORMAN LAMONT



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**OFFICE OF ARTS AND LIBRARIES**  
Great George Street  
London SW1P 3AL  
Telephone 01-270 5929

*From the Minister for the Arts*

C87/771

Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
LONDON SW1

*Letter received  
after comment was  
prepared, but  
incorporated in  
reply*

20 February 1987

*Dear Chancellor,*

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**

Since I wrote to you on 8 January I have been under further pressure from the major heritage bodies to urge my Treasury colleagues to agree to the waiver of interest charges on objects offered in lieu of tax. As I said, this concession could win us considerable credit at relatively small cost. I very much hope, therefore, that you are still considering it as part of any package of small concessions in the Budget. The heritage world needs a positive sign from us that we continue to be sympathetic to their cause.

You will have seen a letter from Lord Charteris and others in "The Times" arguing for an increase in the "douceur" for AIL cases to 50%. My officials are looking at this in consultation with DOE. There are of course public expenditure implications in any such change and I shall be writing separately in due course.

*Yours sincerely*

*Michael Starn*

RICHARD LUCE

*(Approved by Mr Luce &  
signed in his absence)*

EXCHEQUER			
23 FEB 1987			
MR DENTON -IR			
CST	FST	EST	MST
SIR P MIDDLETON			
MR CASSELL			
MR SCHOLAR			
MR GILMORE			
MISS SINCLAIR			
MR BURR			
MR WALTERS			
MR CROPPER			

**CONFIDENTIAL**

PS/IR  
PS/CTE



**CONFIDENTIAL**



Inland Revenue

Policy Division  
Somerset House

*res in.*  
*b/f 23/2*  
*A*

FROM: D DENTON

DATE: 19 FEBRUARY 1987

- 1. MR THOMPSON ✓ *19/2*
- 2. MR HOUGHTON ✓ *Note at end. 19/2*
- 3. FINANCIAL SECRETARY

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**

1. In the light of the Chancellor's remarks (recorded in Mr Kuczys' note of 16 February) in response to Mr Williams' note of 11 February, you may find the following comments helpful in preparation for a Ministerial discussion on the matter.

2. The Chancellor has observed that there could be a fall in value of the property offered during the period of negotiation of the offer. This is, of course,

- 
- |                       |                 |
|-----------------------|-----------------|
| cc PS/Chancellor      | Mr Isaac        |
| PS/Chief Secretary    | Mr Houghton     |
| PS/Economic Secretary | Mr Beighton     |
| PS/Minister of State  | Mr Thompson     |
| Sir P Middleton       | Mr Kent         |
| Mr Cassell            | Mr Gonzalez     |
| Mr Scholar            | Mr Walker       |
| Mr Gilmore            | Mr Denton       |
| Miss Sinclair         | Mr Wright (CTO) |
| Mr Burr               | Miss Barlow     |
| Mr Walters            | PS/IR           |
| Mr Cropper            |                 |
| PS/C and E            |                 |



# CONFIDENTIAL

possible. But, given the buoyant state of the art market in recent years which shows no immediate signs of changing, this is unlikely to be a common occurrence for positional goods of this nature with their international appeal. The upward movement of art prices is illustrated in paragraph 7 of my earlier note of 19 January. The argument contained in paragraph 6 of the paper attached to Mr Luce's letter of 8 January to the Chancellor - that regard should be paid now to the lower movement in the RPI - is clearly unrealistic. But it is perhaps not without significance that, in support of his representations, Mr Luce himself has not sought to suggest that a general downward market might ensue. If that happened, the AIL facility is unlikely to be attractive anyway.

3. Although this valuation point is an important consideration to be borne in mind, it is by no means the only one. Other points are listed in paragraph 5 of my earlier note. As was mentioned by Mr Houghton at the discussion on 10 February, the waiving of interest in the heritage context could well have potential knock-on effects for the valuation of unquoted shares which is often a prolonged exercise. Moreover, the present representations are based on the false premise that interest is a penalty for delay. It is not. It is commercial restitution for the non-receipt of monies properly due to the Exchequer at a given date. The rate of interest - 8, not 11, per cent as quoted by Mr Luce - recognises that processing of the offer will inevitably take time. It is 1 1/2 percentage points below the rate chargeable on income tax arrears. If there is procrastination by one or more Government Departments or agencies in processing an offer, this may lead to remission of interest on grounds of maladministration. Finally, it should also be borne in mind that under the existing rules the AIL route represents an extremely beneficial financial recompense for an offeror and a costly one for the Exchequer. This is due to the fact that both tax expenditure (because the item accepted is itself exempt from charge) and public expenditure (the amount of tax on other property which the item accepted is treated as paying) is being incurred.



# CONFIDENTIAL

4. Turning to the Chancellor's question as to whether a change of basis would be so disadvantageous, an example is appended illustrating the effects of the two bases in a hypothetical case. This assumes that the item in question has increased in value by 50 per cent in the 2 1/2 years between the date of death and the date of acceptance. Having regard to the upward trend of Sotheby's index of price movements in the last four years (see paragraph 7 of my earlier note), we do not believe this to be an unrealistic assumption. The Capital Taxes Office (CTO) have ample records of cases where it has been claimed that substantial price increases have taken place between the date of death and the date of sale, even when the period in question is no more than a year or so (these are cases where the CTO has been contending for an increase in the date of death value).

5. The example illustrates the beneficial nature of the present system. In the circumstances, a change of basis, or the introduction of an option between the two, is unlikely to be of much practical help in the present economic climate. But either alternative would import the practical and procedural difficulties inherent in Mr Luce's proposal - is it appropriate for heritage Ministers to be making value judgements about whether or not interest charges should run and, in practical terms, would it be feasible for them to reach a conclusion without uneconomic use of resources?

D. Denton.

D DENTON

While the buoyancy of the heritage items market persists, it will tend to benefit taxpayers to take the higher date of acceptance values and pay the interest - at the not too aggressive rate of 8%.

RMS 19/2



Acceptance in lieu : illustrative example

The example assumes that A died in June 1986 leaving a chargeable estate of £1.5m. Tax payable is £820,300. The due date for payment is 1 January 1987. The estate also included various heritage items for which conditional exemption is claimed. In June 1987, a picture is offered in lieu of part of the outstanding liability. Negotiations commence and are concluded on 31 December 1988. At the date of death the picture was valued at £100,000. By the date of offer it had increased to £120,000. By the date of acceptance its value is £150,000.

Calculation of special price

	<u>Value at date of offer</u>		<u>Value at date of acceptance</u>
Agreed market value	120,000		150,000
Tax applicable thereto:-			
CGT @ 30% on gain element, assumed to be £20,000	: 6,000	CGT (gain element now £50,000)	: 15,000
Clawback of CTT exemption given on a previous conditionally exempt transfer - say 60% on £114,000 (MV less CGT)	: 68,400 - 74,400	CTT - 60% on £135,000 (MV less CGT)	: 81,000 96,000
Net after tax	45,600		54,000
Add back 25% of tax (the douceur)	18,600		24,000
Special price which is off-set against tax on other property	<u>64,200</u>		<u>78,000</u>
This amount will satisfy:-			
tax	61,730		67,240
interest (8% for 6 months)	<u>2,470</u>	(8% for 2 years)	<u>10,760</u>
	64,200		78,000

The additional interest payable on the present basis is £8,290 (£10,760 less £2,470). But the special price has increased by £13,800 (£78,000 less £64,200). Net gain to estate is £5,510.



FINANCE BILL 1987:  
ARTS AND HERITAGE  
CONCESSIONS

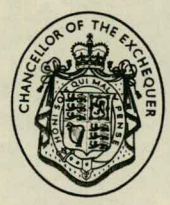
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loff with  
response

Kuczys  
→ PS1FST  
16/2

PT. B  
24/6.



FROM: A W KUCZYS  
DATE: 16 February 1987

(w  
20/2)

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Scholar  
Mr Gilmore  
Miss Sinclair  
Mr Burr  
Mr Walters  
Mr Cropper  
PS/IR  
PS/C&E

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**

The Chancellor was grateful for your note of 11 February. He was, however, puzzled by the reference in paragraph 3 to estates benefitting from the increase in value of the property between the date of death and the date that the offer is concluded. Why should there be an increase in value at all? Properties can fall in value, as well as rise. The Chancellor cannot see this as a sustainable argument for rejecting the proposal.

2. Paragraph 4 of your note says that the logical corollary would be to move to valuing property at the date of the offer. The Chancellor wonders whether this would really be so disadvantageous? And is not the best answer to give offerors the option? (That is, they could choose between value at date of offer and no interest, or the status quo.)

3. The Chancellor would be happy to discuss this with the Financial Secretary - and the Chief Secretary - if he wishes.

A W KUCZYS





FROM: N WILLIAMS  
DATE: 11 February 1987

PS/CHANCELLOR

- cc PS/Chief Secretary
- PS/Economic Secretary
- PS/Minister of State
- Sir P Middleton
- Mr Cassell
- Mr Scholar
- Mr Gilmore
- Miss Sinclair
- Mr Burr
- Mr Walters
- Mr Cropper
- PS/IR
- PS/C&E

WILLIAMS  
→ PS/CH  
11/2

*I am puzzled  
by X. Why do  
these values @ all?  
The proposals are  
for a value  
not. I cannot see  
any - a suggestion  
to sign for  
proposed  
to value  
or*

*Content with  
FST's conclusion?*

*(PS happy to discuss with  
FST - x CSI - if he  
wishes)*

FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS

- Your minute of 26 January asked the Financial Secretary to have a look at this subject. The Financial Secretary has now discussed Mr Denton's minute of 19 January with officials and Mr Cropper.
- The Financial Secretary's conclusion is that we should not agree to the AIL concession sought by Mr Luce.
- The key point to be borne in mind when considering this issue is that the value of the heritage property for these purposes is that at the date of acceptance. The estate has therefore benefitted from the increase in value of the property between the date of death and the date that the offer is concluded. The interest charge (currently set at 8% per annum) reflects the use that the estate has had of the money in the interim. It is therefore in the nature of an offset and in the majority of cases will be less than the increase in value of the property.
- If the interest charge were to be discontinued there would be a strong case in logic for accepting the heritage property at its value at the date of the offer. This would, however, not be attractive to the heritage lobby.

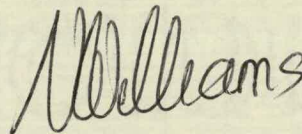
*to disadvantage  
As is not the  
answer to  
offer no free  
option?  
(He may choose  
value @ date  
of offer & no  
offset or  
share  
offer)*



CONFIDENTIAL

5. The Chancellor had said that the key question seemed to be 'who is responsible for the delay'? The problem in this instance is that it would be difficult and in many cases virtually impossible to decide where the responsibility for delay rested.

6. The Financial Secretary has therefore concluded that we should not offer this concession to Mr Luce. Given the general benefit of this year's IHT proposals and the particular benefit that will be derived from the Maintenance fund proposal, the heritage should not be displeased with the Budget measures in this area.



NIGEL WILLIAMS  
(Assistant Private Secretary)





Inland Revenue

Policy Division  
Somerset House

*I will be grateful if you could look at this. The letter quoted in the above is for the case of the same person. It is usually who is responsible for the inheritance tax point.*

FROM: D DENTON  
DATE: 19 JANUARY 1987

- 1. MR THOMPSON
- 1A. Mr. Thompson
- 2. CHANCELLOR

*We already have something for the Heritage in the Statute (the life tenant point) which looks likely to stay the course.*

FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS

1. You asked (Mr Kuczys' note of 12 January) what it would cost to meet the AIL concession sought by Mr Richard Luce in his letter of 8 January which also contains the OAL's other Budget representations. He is asking for interest on IHT to be waived for a period of two years or more from the date that heritage property is offered in lieu of tax on other property.
2. We estimate that the cost of the change would be of the order of £0.5m per annum.
3. Under existing arrangements it is not possible for the potential loss of interest to rise significantly because the amount of tax that can be satisfied by the AIL route is limited. For a number of years the aggregate annual provision made by the heritage Departments to reimburse the Revenue for

*Mr 19/1  
I have available  
sy-jack  
with the  
CST's  
via  
(Mrs R 15/1)*

DENTON  
→ CH/EX  
19/1

- |                        |                 |
|------------------------|-----------------|
| cc PS/Chief Secretary  | Mr Isaac        |
| PS/Financial Secretary | Mr Houghton     |
| PS/Economic Secretary  | Mr Beighton     |
| PS/Minister of State   | Mr Thompson     |
| Sir P Middleton        | Mr Kent         |
| Mr Cassell             | Mr Gonzalez     |
| Mr Scholar             | Mr Walker       |
| Mr Gilmore             | Mr Denton       |
| Miss Sinclair          | Mr Wright (CTO) |
| Mr Burr                | Miss Barlow     |
| Mr Walters             | PS/IR           |
| Mr Cropper             |                 |
| PS/C and E             |                 |



tax paid in this way has been £2m. Since the Summer of 1985, there has been a facility for additional recourse to the Contingency Fund in appropriate cases. The aggregate sum available is of the order of £10m per annum. The drawings on the Fund so far have been nowhere near this figure. Our estimate assumes an average aggregate of tax satisfied of £3m per annum.

4. In the light of this it is evident that, in purely financial terms, meeting Mr Luce's point would be an inexpensive gesture. By the same token, it is not easy to believe that, in practice, the potential interest at stake (four to six figure sums) would prove to be the necessary incentive to increase the number of offers being made as its advocates suggest.

5. The arguments against the proposal have never centred on the potential cost but have been of principle. The main points are:

- The repercussive aspects. Interest is currently waived only in cases of official error. A concession for AIL could lead to pressure for an interest holiday for any period during which a payment delay was arguably connected with valuation negotiations.
- The levying of interest is not in any sense a penal sanction but is designed to reflect the commercial reality of who has the use of monies properly due to the Exchequer.
- It would be inappropriate and unfair for the interest charge to depend on whether the tax liability on the rest of the estate was settled in cash or in kind.
- As the heritage property is accepted at its value at the date of acceptance, the estate benefits from any increase in value between the date of death and the date the offer is concluded.



- The interest charge can be negated by putting money on deposit while negotiations are conducted.
- The interest charge is an incentive to a speedier settlement.
- It would remove the strict equality of treatment as between AIL cases and private treaty sales.

6. OAL argue that current circumstances are different to those prevailing in 1982 when the Government decided not to accept the recommendation about the waiving of interest in the 1980-81 Report of the Select Committee on Education, Science and the Arts. In particular, they consider (second subparagraph of paragraph 6 of the Annex to Mr Luce's letter) that increases in market prices between the date of death and the date of acceptance of an offer may well no longer be a quid pro quo for the interest charge. They also argue that, in the majority of cases, executors do not have the liquid funds to put money on deposit while negotiations are conducted.

7. We do not share their views. The factors listed in paragraph 5 remain valid today. On the quid pro quo point, the increases in art prices in recent years have far exceeded the general level of inflation - Sotheby's index of price movements of works of art, artefacts etc shows an upward movement of some 80 per cent in the last four years. Recent press reports (see Appendix 1) do not suggest that this bubble is about to burst. Finally, we consider that it would be overstating the case to argue that the majority of offerors do not have the liquid funds to make a cash deposit. In our experience, offers generally emanate from the larger estates and quite frequently the items in question are of comparatively small value.

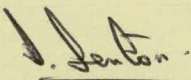
8. In further support of his proposal, Mr Luce draws an analogy with the supposed practice of not charging interest where there are delays in establishing maintenance funds. It is assumed that he has in mind the point that relief is given in respect of the transfer of endowment property into a



maintenance fund even if the qualifying terms of the fund are not agreed until sometime later. We consider this comparison to be misguided. The maintenance fund exemption is similar in concept to the exemption for heritage property itself. In both cases relief from tax is given in respect of the relevant chargeable transfer, providing the conditions of relief are met and agreed. But, unlike AIL cases, there is no interest charge because there is no tax payable.

9. There are therefore very good reasons for continuing to resist the proposal. If, nevertheless, you are disposed to be sympathetic there are serious shortcomings with Mr Luce's suggestion. First, his idea is to waive up to two years' interest, irrespective of whether the offer is eventually accepted, subject to a check after one year that the parties are not deliberately spinning out the negotiations. This is in effect a blank cheque, which could well encourage spurious offers to take advantage of the provision. They could be withdrawn at a later stage for all manner of reasons which would make it extremely difficult to prove the mala fides of the parties. Given the timescale for completing the formalities, Mr Luce's idea of reviewing the position after one year for signs of deliberate delay is likely to be ineffective. But, that aside, value judgements of that nature are not easy to make and would no doubt be contested vigorously where the relief was withdrawn.

10. Second, the proposal would evidently give offerers a double advantage by continuing the existing practice of accepting items by reference to their value at the date of acceptance. This would be difficult to justify. Commercial considerations would point to this practice being ended and to items being accepted at their value at the date of the charge on the other property. We have made this point to the HHA on occasion and they have acknowledged that this would generally leave their members worse off than under the present rules.



D DENTON



# Record price for Rembrandt's unknown girl

By David Sapsted

A Rembrandt portrait of a plump girl, possibly the artist's sister, was sold for £7.26 million, a record price for a painting by the Dutch master, at Sotheby's yesterday.

The buyer of *Portrait of a Lady* wishes to remain anonymous and Sotheby's staff even refusing to disclose the continent he lives in.

Although the London auctioneers had cautiously put a price tag of around £2 million on the oval portrait — sold from a private collection in

the United States — there was speculation before the sale that, given the increasing prices of works of art, it could top the £8.1 million paid for the world's most expensive painting, Mantegna's *The Adoration of the Magi*, in April last year.

The bidding opened at £500,000 and there were several bidders up to £3 million, the New York dealers Feigen being the last to drop out.

The final bid was £6.6 million, Sotheby's 10 per cent commission, which both seller and buyer have to pay, being

added to the price. The only tax liability on the picture is the 15 per cent VAT added to the commission charges.

It was once owned by Prince Johannes II of Lichtenstein, and was bought in 1929 by an American millionaire, the late Mr Robert Treat Paine II. It was on loan to the Museum of Fine Arts in Boston for 20 years before Mr Paine's family decided to sell it earlier this year.

The girl in the portrait, wearing a serious expression and a black cloak trimmed with gold, shares Rembrandt's

plump features. While some believe she may be the artist's sister, or even his first wife, other experts say she came straight from the artist's imagination.

There is no question among scholars that the work is anything but genuine: it is signed by Rembrandt and dated 1632.

Works by Rembrandt are a rarity at auction. The previous highest price, \$2.3 million (£1.6 bn) in 1961, was paid for *Aristotle Contemplating the Bust of Homer* at Parke-Bernet, the New York firm

subsequently taken over by Sotheby's.

The last Rembrandt which appeared on the market was a less important portrait which made just over £478,000 in 1980, also in New York.

As yesterday's painting came from the United States, there will be no need for an export licence from Britain, assuming it is going abroad again.

In the same sale, two portraits by Rembrandt's contemporary, Frans Hals, were bought in at £1.4 million and £1.6 million.

→ THE TIMES, 11 DEC. 1986

## Gallery successes as market booms

# Fillip of 77% for Sotheby's

By Geraldine Norman, Sale Room Correspondent

Sotheby's yesterday announced a 77 per cent increase in turnover for the autumn season.

Money has been pouring into the art market on an unprecedented scale over the past three months with new auction price records set almost daily but Sotheby's increase in business has run well ahead of the market as a whole.

Christie's, reporting on sales for the same period, had scored a 23 per cent increase in turnover while Phillips, reporting on a full year's sales, recorded a rise of only 4 per cent. Phillips' chairman, Christopher Weston, under-

lined that the autumn had set a much more rapid pace than the rest of the year, however.

The Sotheby achievement remains in a class of its own. The autumn turnover amounted to £331 million compared with only £187 million world wide last year. Christie's autumn turnover was under half the Sotheby figure at £158 million.

The principal explanation of Sotheby's success lies in the policy of wooing clients who are unfamiliar with the art market, making it easy for them to use auctions both for buying and selling. This policy has been a top priority with

Sotheby's since the firm was taken over by A. Alfred Taubman three years ago.

Mr Michael Ainslie, the chief executive, says that the proportion of private buyers at Sotheby sales has risen from 35 to 60 per cent in under three years.

The autumn has also been influenced by the big tax changes due in the United States on January 1. Capital gains tax is going up from 20 to 28 per cent and some art has come on the market to beat the January 1 deadline. The £7.26 million Rembrandt sold in London last week is quoted as an example.

→ THE TIMES,  
19 DEC. 1986

## Manet's record £7.7m

A sunlit street scene painted by Manet in 1878 became the most expensive modern painting sold at auction when it brought £7.7 million at Christie's last night.

The painting was included in the biggest selection of Impressionist paintings formed in Britain, that of Samuel Courtauld, who purchased it in 1924. The painting was sold by Mr James Butler, his grandson, to an unnamed European collector.

"La Rue Mosnier aux Paviers" shows roadworks in a street busy with coaches. Plants cascade from window-boxes and a bright, white sunlight slants through breaks in the buildings.

It is the third of the Courtauld pictures to come on the market this year and one of five that were given by Courtauld to his only daughter, Sydney, when she married the late Lord Butler. They were then inherited by the Butler children.

Mrs Sarah Price, née Butler, is selling Renoir's "La Place Clichy" to the Fitzwilliam Museum, Cambridge, for a

cut-price £1 million, while her brother, Sir Adam Butler, parted with his Seurat for £6 million to Heinz Berggruen, a Swiss dealer. It was last seen hanging on loan at the Metropolitan Museum, New York.

A superb Cézanne and a Monet remain with the family. The Manet beats the previous record for a modern picture, set by Van Gogh's "Landscape with Rising Sun" by £240,000.

The total sale for the evening, which included a Toulouse-Lautrec at £1.76 million and a Leger at a record £1.1 million, was £20,519,400.

→ THE TIMES,  
2 DEC. 1986





Ch

The further notes you requested are at appendices A and B

CHANCELLOR

DJK  
19/1

Thank you,  
I agree.

FROM: FINANCIAL SECRETARY

DATE: 19 January 1987

cc PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Wilson  
Mr Monck  
Mr Burgner  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Ross Goobey  
Mr Graham OPC  
Mr McGivern IR  
PS/IR

FST  
TO  
CH/EX  
19/1

1987 BUDGET : DTI REPRESENTATION

STARTER 124. TAX RELIEF FOR PRE-TRADING RESEARCH AND DEVELOPMENT (R & D)

1. Following Mr Kuczys' minute of 31 December on this subject I have had a full discussion with Treasury and Inland Revenue officials.

2. I think we all see R & D as an important (and sensitive) area which merits close attention. There is an urgent need for industry to do more (and better) R & D to take advantage of current market opportunities, including highly competitive exchange rates.

3. However, I do not think that Starter 124 is the right way forward. Nor, in advance of the review of other countries' arrangements, do I think we should feel constrained to take some other action in this year's Budget.

4. There are two problems with Starter 124. First, we do not know whether there is a real problem here, and whether a relief of this kind would stimulate a worthwhile amount of genuinely new R & D (which is the DTI objective). Second, a



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relief which was designed both to achieve the DTI aim and to avoid creating a new tax shelter would mean complicated legislation, would go against the whole thrust of your 1984 reforms, and would generate immediate pressure for comparable concessions elsewhere.

5. I agree that lack of evidence on the first point does not dispose of the case, (though one would have expected the DTI and industry to have produced more substantial evidence of significant shortcomings in the present tax and grant arrangements). If we were sure that legislation would do no harm, and might do some good, we could try it and see what happened. If there was little or no take up, there would be little or no cost. But we are not in that position. We would certainly need detailed rules to guard against the relief becoming a tax shelter. This, however, might lead to criticism that we were being too restrictive and might swamp any welcome for the measure itself. And we would have to wait and see whether, at the end of the day, we secured sufficient extra R & D to compensate for this.

6. In my judgment it would be better to await the outcome of the international review now being carried out by Inland Revenue and Treasury officials - we are promised a report by 31 March. That review will look particularly at the effectiveness of schemes adopted elsewhere and will enable us to take decisions in this area on the basis of up to date data and evaluations. We cannot be sure that the review will throw up any promising candidates, but in any event it would seem odd to anticipate the outcome by acting on this Starter in isolation.

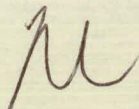
7. At my meeting I considered whether, if we did not proceed with Starter 124, we should look for some minor easing of the present rules as a gesture of encouragement for R & D - for example, extending the three year period in which pre-trading expenditure qualifies for relief. But in my view it could be worse presentationally to do something which would be seen as no more than a gesture with little impact than to do nothing at all.



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8. If, as I recommend, we decide that we should take no action on this subject in this Budget, then I think our defence is clear. The business tax reforms of 1984 are now in place and company profits are taxable only at 35%, or 29% in the case of most companies. Most (90% plus) of all R & D expenditure is relieved by way of ordinary revenue deduction in computing profits, with 100% first year allowances for plant, buildings and other capital expenditure on research. (A note on the cost of the existing tax reliefs for R & D is attached at Appendix A, which also deals with how we could use the figure publicly). Moreover, the Government has recently announced a range of initiatives in this area - notably the LINK programme - and the onus is plainly on industry now to take advantage of this general climate and improve its own performance.

9. On international comparisons, the Chief Secretary informed E(RD) on 19 November about the proposed review. We have not yet made public the fact that the review is being carried out - and it would seem sensible not to do so until at least we have had a chance to digest the promised report. Appendix B is a very brief note from the Revenue setting out the current position.



NORMAN LAMONT

ENC



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APPENDIX A

The £m800 figure of the cost of existing tax reliefs for R & D

I How the figure is calculated

1. The most recent published figure (£bn2.5) for the total of R & D expenditure by private industry is for 1983 and was published by DTI in the August 1984 Economic Trends. A more up to date figure (for 1985) should be publicly available later this year.
2. For the purpose of costing the relief, we have assumed that the R & D figure could be some £bn3 for 1987. This is our own estimate, obtained by extrapolating the 1983 estimate of some £bn2.5; it would be necessary to agree a figure with DTI before publishing any figure.

This expenditure may be relieved for tax by way of -

- i as to over 90% - that is £bn2.75 - ordinary revenue deductions for current R & D expenditure (eg wages, heat and lighting etc); this is worth up to £m950 at the 35% tax rate;
- ii as to much of the remainder, by way of -
  - capital allowances for "development" plant and industrial buildings, and
  - scientific research allowance (100%) for "research" plant and buildings.
3. Allowing for the items at (ii) above, for the fact that some companies carrying on R & D will be tax exhausted, and that some other R & D will never be relieved because



no tradeable product will emerge from it, we arrive at the broad order of magnitude of £m800.

II Use of this figure publicly

4. As paragraph I above explains, the great bulk of tax relief for R & D relates to revenue expenditure and so is given by way of the normal tax rules for business expenditure, rather than by way of any special relief. For this reason the £m800 figure would need to be used with caution to avoid giving a false impression. There is also the more practical point that it would be necessary to revise the estimate when more up to date data is available; and, since the basic data is the DTI's, to clear it with them.



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## APPENDIX B

## R &amp; D - INTERNATIONAL COMPARISONS - INTERIM NOTE 14 JANUARY 1987 FROM INLAND REVENUE

1. A number of countries - USA, Australia, France, [Japan] - have tax credit schemes aimed specifically at encouraging R & D. West Germany does not - it has a particularly favourable grant system. The UK favours scientific research by way of scientific research allowances and a grant scheme. Some countries eg Switzerland seem to have no special incentive.

2. We (together with Treasury officials) are studying ten OECD countries, including those mentioned in the previous paragraph. We have the benefit of earlier (inconclusive) work done in this area by the OECD and of various academic studies. We have been in direct contact with officials in the USA, France and Australia and have written/are writing to officials in the remaining study countries.

3. We attach a table giving a snapshot of the picture as we see it now - although such a table can only give a superficial impression of the position. Two particular points might perhaps be made:

- firstly, it is quite misleading to look exclusively at "fiscal incentives". A lot of other factors have to be borne in mind eg tax rates on industrial profits, the scope and level of grants, cost-effectiveness of any special relief (ie how much extra R & D, how much dead-weight?)
- secondly, whatever the position on paper eg country A's incentives are worth x%, country B's incentives x-y%, there is really no evidence of which we are yet aware that fiscal incentives have been effective



anywhere in stimulating more R & D or investment generally. Also attached is an extract from Duns Business Month from the middle of last year. While we would not necessary subscribe to the view of the author the article does show that in this area (as in so many) bigger does not necessarily mean better. Our study will aim to draw together as much analysis as possible to enable Ministers to evaluate the various claims made by the interest groups (? really the EEA) for further tax relief for R & D).

INLAND REVENUE



INCENTIVES FOR RESEARCH AND DEVELOPMENT

W. Balitt  
W. Driscoll

	UK	AUSTRALIA	CANADA	FRANCE	NETHERLANDS	JAPAN	SWEDEN	SWITZERLAND	WEST GERMANY	USA
<u>Tax incentives</u>										
Revenue expenditure	Allowed in full	150% allowed	Allowed in full	Allowed in full	Allowed in full	Allowed in full	Allowed in full	Allowed in full	Allowed in full	Allowed in full
Revenue expenditure tax credit	None	None	Not clear: may be limited tax credit to be phased out by 1989	Combined 50% tax credit for increase in capital and revenue expenditure on plant over previous year. Credit limited to 5 million F.	None	20% of excess of expenditure over previous "high"	None 10% investment allowance (deduction from income)	None	None	20% of excess over average of preceding 3 years expenditure; expiring 1988
Capital expenditure	25% of reducing balance for plant and machinery; 4% straight line for industrial buildings	33 <sup>1</sup> / <sub>3</sub> % straight line for buildings. 150% of expenditure on plant deductible in equal amounts over 3 years (1986 proposal)	Deductible immediately (less any tax credit)	Assets generally attract rates of up to 20% (P & M). Industrial buildings 5%; R & D buildings 50% initial allowance - remainder over 19 years	P & M generally 10% (SL) .3% buildings	Assets generally are depreciated over useful life	Plant generally attracts rate of 30%. Buildings depreciated over useful life	Plant generally attracts rate of 30%; 8% for buildings	R & D Plant effective write off over 5 years; buildings 4% plus accelerated depreciation	5 year write off for plant; industrial buildings written off over 15-30 years
Capital expenditure tax credit	None	None	30-35% but to be phased out by 1989	See above.	12-5% (base not reduced)	7% for high technology R & D plant	10% investment allowance (deduction from income)	None	None	No
Corporation Tax Rate (see note)	35% (29% small companies)	46% (49% from 1.7.87)	40% (manufacturing) reducing to 36% by 1989. Small manufacturing companies 20% (18% from 1.7.87)	45%	42%	43.3% (reduction proposed) (lower rate for distributed profits)	52%	30-40% including local taxes	56% undistributed profits (lower rate for distributed profits)	34% from 1.7.87
Additional information	100% first year allowance for scientific research and also for appropriate buildings in enterprise zones			Scientific research buildings attract a 50% FVA						
<u>Grants</u>	Regional Development grants plus R & D related schemes of assistance	In certain circumstances (eg loss making concerns)	Information scarce but scale of assistance likely to be reduced	According to zone	According to area	Possibly	For certain areas	No information	For certain areas	Possible free land

Note: Corporation tax rates

- i. With the exception of Switzerland only the national/federal CT rate is given. There are "local" taxes in addition in Canada, Japan, Germany and the USA.
- ii. The rate quoted is for undistributed profits. There are lower rates for distributed profits in Japan and Germany.

P4/P5/1/87



# The Shaky Case for Aiding Investment

*Congress wants to slash investment tax breaks. Are they really a boon for business or just handouts for some companies?*

by Marc Levinson

Incentives for business investment, widely heralded by Republicans and Democrats alike when they were enacted in 1981, are on the line in Washington. The tax bill passed by the House would sweep away \$140 billion of these incentives between now and 1990 to pay for lower corporate and individual rates. President Reagan backs the basic thrust of the House measure and the issue is now before the Senate, where capital-intensive companies are making a last-ditch stand to preserve business tax breaks. Repeal, they warn, would decrease capital spending and reduce economic growth.

But Congress has good reason to be skeptical about the 1981 investment package. It was no bargain for the taxpayers. Allen Sinai, chief economist for Shearson Lehman Brothers, estimates that each dollar of tax revenue lost due to accelerated depreciation and investment tax credits from 1981 to 1984 generated only 51 cents worth of investment. Adds Philip Webre, an analyst with the Congressional Budget Office: "The empirical evidence just isn't there that these things have done that much good."

The 1981 Economic Recovery Tax Act, the centerpiece of the Reagan Administration's "supply-side" economic program, sought to hike investment by

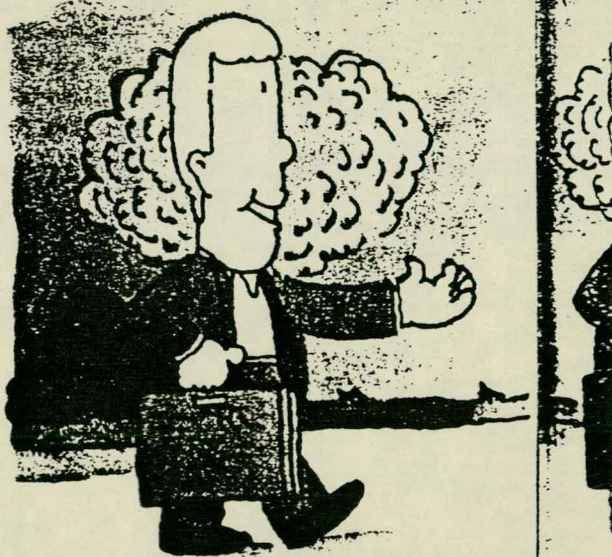
allowing companies to depreciate assets more quickly. The investment tax credit for plant and equipment was increased, and easier rules governing leasing encouraged money-losing companies to sell their tax benefits to profitable firms seeking shelters. A 25% tax credit was allowed for research and development costs. The changes lowered the average tax that companies paid on their profits from 42.6% in 1981 to 36.5% in 1982. A 1982 revision cut back on some breaks, but left the basic law intact.

Studies of capital investment since 1981, however, reveal no clear-cut proof that the incentives worked. Many economists argue that the growth in investment since 1981 has been due more to economic expansion than to the incentives. And the new tax breaks may not have stimulated the kind of investment and innovation Congress had in mind. Moreover, many of the arguments advanced in Congress for retaining these investment incentives are on shaky economic ground.

The strong recovery of 1983-84, which would have caused investment to soar even without tax incentives, makes it difficult to tie capital spending in the early 1980s to the tax breaks. Filtering out normal capital spending in an expansion, studies for the Federal Reserve Bank of New York, the U.S.

Chamber of Commerce and the American Enterprise Institute estimate that the business tax cuts accounted for less than one-fifth of the increase in investment from 1981-82 to 1983-84. If those estimates are correct, the tax provisions increased nonresidential fixed investment by about \$14.4 billion in 1984, at a cost of as much as \$23 billion in tax revenues. Says Emil M. Sunley, director of tax analysis for Deloitte Haskins & Sells: "Clearly, investment as a percentage of GNP has not followed the path that the Administration expected it to follow in 1981."

Brookings Institution economist





Barry Bosworth argues that much of the increased investment that did occur was unrelated to accelerated depreciation and higher investment tax credits. He notes that office equipment and automobiles accounted for almost all of the increase in spending on producers' durable equipment between 1979 and 1984, but the 1981 tax bill did not favor investments in autos and actually reduced benefits for computers.

The reason the investment increase occurred in unintended ways, Bosworth maintains, is that no one knows exactly what types of investments the tax code favors. "It's too damn complicated to take all the provisions, net them against one another and find out what they're doing," he contends. For example, machinery receives fast write-offs and investment tax credits, while buildings get slower write-offs and no credits. But machinery is often purchased with cash, whereas buildings are financed with mortgages. Since mortgage interest is tax-deductible, the net effect may favor buildings rather than machinery.

The highly-touted research and development credit did not stimulate much R&D or innovation. After surveying 110 U.S. companies, University of Pennsylvania economist Edwin Mansfield estimates the credit has increased research outlays by no more than 2%, and has generated only about 30 cents in new research for each dol-

lar of lost tax revenue. The main reason the credit failed to boost R&D is that research costs are only a small fraction of the total expenditures for a new product. In addition, many firms that invest heavily in research have no taxable income to shelter.

One rationale for the Reagan tax program was that investment in plant and equipment was declining relative to GNP. In particular, many economists, such as Harvard University's Martin Feldstein, contended that the escalating costs of new equipment far outstripped the amount companies were allowed to deduct and therefore rapid inflation was penalizing capital investment.

This view of the effects of inflation on investment is being challenged. Studies by Robert Chirinko of the University of Chicago and Stephen King of Stanford University indicate that it had little effect on investment in the 1970s. Alan Auerbach of the University of Pennsylvania contends the investment slowdown was due largely to a lackluster economy, not to inflation.

The performance of investment in the wake of the 1981 tax cuts is not the sole basis for skepticism about the efficacy of incentives. Many academics question whether incentives promote economic efficiency in the long run.

The economic case for investment incentives begins with the argument

that corporate taxes artificially depress the return to investors and therefore discourage investment. For example, a new factory may earn 13% of its investment cost annually, but an investor might clear only 8% after taxes. If subsidies—either cash payments or tax breaks—reduce the gap between the investor's return and the return to society, a more "correct" amount of investment will occur. That's why many economists of all political stripes favor replacing the corporate income tax with a consumption levy, such as a Value Added Tax, which would eliminate this difference between the individual's return and that to society.

The conventional wisdom—at least outside the economics profession—has it that government should encourage as much capital formation as possible. But that thinking does not take into

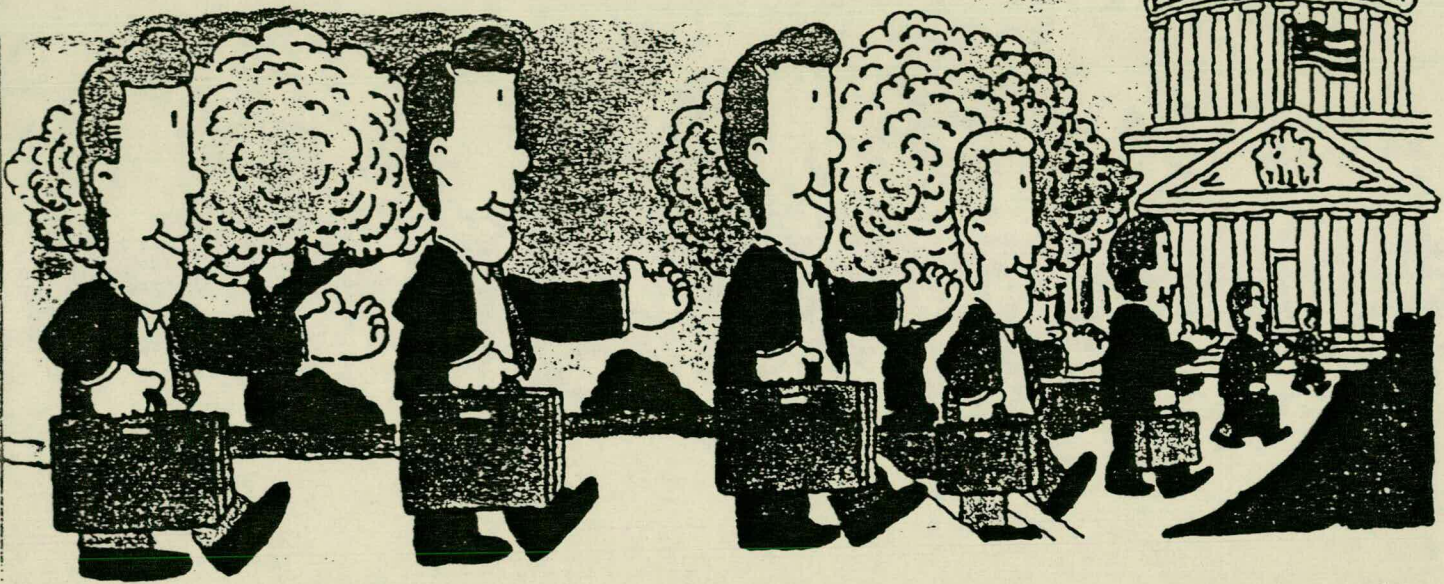


ILLUSTRATION BY KIMBLE MEAD



account the fact that the nation pays for capital formation by reducing current living standards. "Capital does not have any desirable properties of its own," says Harvard University economist Dale Jorgenson. "The purpose of capital formation is to make it possible to have a higher consumption path." Capital formation requires a trade-off between today's living standards and tomorrow's. The most desirable trade-off is a matter of personal preference, and is beyond the realm of economic science.

Many economists and lobbyists try to avoid that issue altogether by arguing that the U.S. should invest the same proportion of GNP as Japan or Germany. Although this argument carries weight in Washington, there is no economic reason that the U.S. would necessarily be better off if it invested in the same proportion as other countries.

In fact, most of the political arguments for promoting capital formation do not stand up to rigorous economic analysis. For example, many proponents of tax breaks promise higher levels of employment. But, as Dale Jorgenson notes, most job creation is due to development of new technologies. "It seems to take place in entities that at their inception are not capital-intensive and are not very much affected by tax incentives," he says.

Similarly, lobbyists cite the need to improve the international competitiveness of American firms. But if investment incentives do indeed work, they actually make the competitiveness problem worse—unless savings go up as well. By encouraging foreigners to invest their capital in the U.S., investment tax breaks raise the value of the dollar in terms of marks and yen, making it harder for U.S. firms to compete with imports.

With imports at 9% of GNP, and foreigners having more than \$175 billion invested in the U.S., many of the gains from investment incentives don't go to Americans. Since so much of the capital goods industry is now located abroad, many of the new capital equip-

*Since much of the capital goods industry is located abroad, much of the gain from incentives doesn't go to Americans.*

ment orders go overseas. And the growing participation of foreigners in the U.S. securities markets means that if investment incentives increase corporate earnings, much of that money will flow abroad in the form of interest and dividend payments. Notes economist John Makin of the American Enterprise Institute: "If you promote investment without promoting savings, you import the savings and the fruits of the investment are earmarked for foreigners."

The need to increase productivity is still another argument put forth to justify the incentives. Much investment does increase productivity, but by no means all. For example, a company's "investment" in a car for an executive does no more for productivity than a car bought by the executive with his own money, although the latter expenditure is labelled "consumption" rather than "investment." Investments induced by tax breaks, contends Northwestern University economist Robert Eisner, will necessarily be less productive than investments undertaken without them. The latter, obviously, make economic sense in and of themselves. An investment decision that is tipped by a tax break often involves a project that is marginal.

The other major benefit attributed to investment is faster economic growth. However, pushing growth above all else means postponing consumption. In Japan, for example, the high growth rate has been accompanied by relatively modest living standards compared with those in the U.S. Moreover, economists are not even

certain that high investment produces high growth rates. Observes John Makin: "High rates of capital formation are not the magic elixir for higher rates of growth. Rather, the way we use capital and—something that's hard to measure—the training of human capital are more important to growth."

Some economists, notably Alan Auerbach, contend that investment incentives actually reduce economic welfare by distorting decision-making. Economic efficiency is promoted by an investment that makes sense on its merits rather than one that is stimulated by a higher after-tax return. Auerbach is correct—if investors respond to incentives. But even that is a matter of dispute. "I don't see any evidence for those responses being large," says Chicago's Robert Chirinko.

The Senate is now considering the tax bill passed by the House, which lengthens depreciation periods, eliminates the investment credit and slaps a minimum tax on corporate income. It also taxes retroactively some depreciation deductions taken in the past. The measure continues to subsidize R&D for three more years, but reduces the credit to 20% from 25%.

Although lobbyists for capital-intensive companies may persuade the Senate to retain some of the incentives, this could be a Pyrrhic victory for American business. By a variety of measures, the cost of capital in the United States remains extremely high compared to levels of the past and to levels abroad. These special investment incentives, while lowering the cost of capital for some, raise the basic price of money for all businesses.

Stimulating investment has worked as a short-term measure in the midst of recession. But over the long term, the nation's economy would be better off if the underlying interest rate was lowered and investment decisions were left to the free market. Notes Allen Sinai: "What drives investment are sales and expectations of sales relative to capacity utilization. Policies that drive the economy faster will have a bigger impact on business fixed investment than any of these tax incentives." ■





FROM: JILL RUTTER

DATE: 15 January 1987

PS/CHANCELLOR (Mr Kuczys)

cc:  
 PS/Financial Secretary  
 PS/Economic Secretary  
 PS/Minister of State  
 Sir Peter Middleton  
 Mr Cassell  
 Mr Scholar  
 Mr Gilmore  
 Miss Sinclair  
 Mr Burr  
 Mr Walters  
 Mr Cropper

PS/IR  
 PS/C & E

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**

The Chief Secretary has seen Mr Luce's letter and your minute asking what the cost of a concession on acceptances in lieu would be.

2 The Chief Secretary thinks that it should be helpful if some concession could be made on this which seems to have a reasonable justification. The Chief Secretary attended a meeting on Tuesday on the British Library, when he had to resist a request from the Arts Minister for some easement in the form of a statement about PES future years to appease the Arts Lobby (and the Lord President who chaired that meeting was not as unsympathetic as he might have been). There is to be a further meeting to discuss this next week. The Chief Secretary thinks that if we could do something to meet Mr Luce on this point at little cost to us it might be a useful gesture.

JILL RUTTER

Private Secretary

RUTTER  
 -) PS/CH  
 15/1



*blf with response pl*



A W KUCZYS

DATE: 12 January 1987

PS/INLAND REVENUE

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- PS/Minister of State
- Sir P Middleton
- Mr Cassell
- Mr Scholar
- Mr Gilmore
- Miss Sinclair
- Mr Burr
- Mr Walters
- Mr Cropper
- PS/C&E

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**

The Chancellor has seen Mr Richard Luce's letter of 8 January, with the OAL's Budget reps. He has asked what the AIL concession would cost?

A W KUCZYS

Kuczys  
→ PS/IR  
12/1



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*From the Minister for the Arts*

C87/83

The Rt Hon Nigel Lawson  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON SW1

CH/EXCHEQU	
REC.	08 JAN 1987
ACTION	MR WALTERS 8/1
COPIES TO	CST, FST, EST, MST SIR P. MIDDLETON MR CASSELL
	MR SCHOLAR

8 January 1987

MISS SINCLAIR, MR GILMORE  
MR CROPPER PS/IR  
MR BURR

*Dear Chancellor of the Exchequer*

**FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS**

I am writing to give you a few thoughts about the issues on which I would appreciate some help. In the light of the charity-giving changes of the last Budget I am not advocating any major or expensive innovations. However, there is one concession that has long been sought by the heritage world, and for which the Exchequer cost would be small, which I now particularly urge you to consider further.

This concerns the treatment of interest charges on items accepted in lieu, which remains a considerable disincentive to using this method of settling a tax bill. Under the present arrangements it can legitimately be claimed that offerers are unjustly penalised because of the necessarily lengthy time required to process and administer offers. Moreover, given the current state of the art market, many owners weigh the attractions of an open market sale against an acceptance in lieu offer and decide that, after tax and commission deductions, they will receive more on the market than through the AIL "special price". When this happens, and the item is of national importance, such as the Portland Font, we are put in the position of attempting to save it for the nation at the much higher open market price, or losing part of our heritage abroad.

I find that the case for waiving interest charges was last considered in 1982, in response to a 1980-81 Report of the Select Committee on Education Science and the Arts. The background and ... supporting material is given in the paper annexed to this letter. As explained there, many of the factors relevant in 1982 either no longer apply, or are considerably modified by present economic and commercial circumstances. Furthermore, in a related heritage field

Luce  
→ CH/EX  
8/1

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we do not charge interest in the case of tax foregone as a result of delays in establishing maintenance funds with their attendant heritage reliefs: an anomaly hard to justify.

I accept that it would be presentationally unattractive to waive interest charges on a retrospective basis if and when an item has been accepted. What I propose is that Treasury Ministers should be given powers to waive interest charges on acceptance in lieu offers for a period of two years, with a review after one year. This review, which would take into account the advice of the Secretary of State for the Environment in the case of land or property, and the Arts Minister for works of art, would decide if the offer was being seriously pursued by the offerer. If so, interest charges would continue to be waived, and if not they would start at that point (or might be calculated retrospectively), since it would become apparent that advantage was being taken of the tax moratorium in order to delay settlement of the tax bill. If, after two years, the case had still not been settled, further waiver would be at the discretion of Ministers.

I believe that this relatively small-scale charge would gain us disproportionate credit and sympathy from the heritage worlds, and I hope that you will seriously consider it.

There are a number of other tax related issues which may be appropriate for inclusion in the Budget and which I know would be very well received in the arts world in the coming months.

I understand that the main film trade organisations are arguing for changes which would allow loan financed film production to qualify for the Business Expansion Scheme benefits that at present are confined to equity investments. I would certainly support any changes in this field that encouraged UK film production.

Changes in the basis of taxation of actors and theatre managers and the shift from Schedule D to PAYE are also giving rise to considerable concern. Here again I would lend my support to the representations made. The group affected is not a large one but the consequences in practice (especially if PAYE arrangements are imposed retrospectively) would cause hardship and outcry.

Finally, a distinction is apparently increasingly being made in the VAT rules between business and non-business activities which can bear heavily on arts enterprises whose VAT input arrangements are often mixed in nature. I very much hope that the overall impact of VAT on arts bodies can be dealt with as sympathetically as possible.

I am copying this letter to Nicholas Ridley.

*Yours faithfully,*  
*John Rutter*

19 RICHARD LUCE  
(Approved by the Minister and signed in his absence)

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## PROPOSAL TO STOP INTEREST CHARGES ON ACCEPTANCE IN LIEU OFFERS

1 The practice of charging interest on tax debts which may be satisfied by offers in lieu has always come under much criticism, but this has intensified in the last six months or so. Representations have been made to the Office of Arts and Libraries and in the press by the Museums and Galleries Commission, the National Art Collections Fund, the National Heritage Memorial Fund and the Historic Houses Association. The views of these bodies have been published in their Annual Reports and have received widespread publicity. Private individuals who are directly affected, such as Sir Denis Mahon and the Viscountess Cobham of Hagley Hall, are also disturbed by the effects of the current practice. The attached index and extracts demonstrate the extent of this concern.

2 Current practice is that the executors of a deceased person's estate are charged interest on the tax debt as soon as the estate becomes liable (about six months after date of death) until payment is made to the Capital Taxes Office. Depending on the size of the estate, interest can run at anything from £50 to £500 or more per day at 11% per annum. An offer of a heritage item may be made in lieu of some or all of the tax due. The value of a conditionally exempt item is then deducted from the value of the total estate when calculating the tax liability. If the item is accepted in lieu of tax, a special price is calculated using the *douceur*, and this price is again deducted from the total tax liability. However, while the offer is being considered and the necessary administration carried out, interest continues to run on the amount of tax which would be satisfied by the acceptance. The calculations are illustrated below in a hypothetical case where the estate is valued at £2M:



	£
Total estate	2,000,000
Less item offered in lieu (conditionally exempted)	200,000
Remainder of estate	1,800,000 (taxable)
Tax due thereon	1,000,300 (i)
Special price for item offered in lieu, say	100,300
Final tax bill for account- able persons	900,000

(i) This is the figure on which interest charges are calculated until the offer is accepted, after which it is reduced by the value of the offered item, in this case £100,300.

In this example, interest on £100,300 at 11% per annum would run at £30 per day. An average straightforward offer, not made until six months after death when the estate becomes liable, generally takes six months to complete, thus costing the offerer approximately £5,400 in interest charges.

3 The example is hypothetical, and offers can be much larger with consequently substantially higher interest charges. Similarly, the example illustrated takes six months to complete from the date of the offer, but in practice many cases take considerably longer. When an offer (of a work of art) is made to the Capital Taxes Office it is passed to the Museums and Galleries Commission. They obtain expert advice on the pre-eminence and valuation of the item, and the offer is then put to the Commissioners. If they are satisfied with the terms of the offer, a submission is made to the heritage Ministers at the Office of Arts and Libraries and the Department of the Environment for approval. If approved the Capital Taxes Office are informed and an exchange of the Memoranda of Acceptance is arranged. It is only when these documents have been signed by both parties that the interest is stopped. Delays can occur at any or all of these stages. They can neither be predicted or avoided. There may be difficulties in determining



the extent if a multiple offer; in finding suitable expert advisers; in gaining access to the item to assess it; in contacting offerers to gain their permission to view; Ministers may need time to consider a difficult case (for instance, if it is pre-eminent only in a particular context); and in contacting executors to exchange memoranda. The length of time required to accept an offer therefore depends entirely on individual circumstances, and it can appear as very unjust that offerers should incur interest charges on a tax debt they are genuinely trying to discharge.

4 There has been a previous attempt to have interest charges waived. The Third Report from the Education, Science and Arts Committee in 1980-81 recommended that the Inland Revenue should forego all interest charges which arise from delays in deciding whether or not to accept property under the "in lieu" provision. The Select Committee Report said:

"Since it is manifestly unjust that, after an offer has been formally made, interest charges on the amount of tax liability satisfied by its acceptance should not, upon that acceptance be waived retrospectively back to the date of the offer, decisions by owners to embark on the process at all are rendered that much more unattractive".

This recommendation was endorsed by, amongst others, the National Portrait Gallery, the MGC, the Historic Houses Association and Denis (now Sir Denis) Mahon.

5 However, after lengthy consideration, the Government published their reply in 1982 as follows:

"This recommendation is similar to that made by the Expenditure Committee (Environment Sub-Committee) in its Third Report on Session 1977-78 - the National Land Fund - which was carefully considered by the present Government. The Government concluded that interest should not be foregone and this was announced on 24 April 1980 by the Minister of State, Treasury, in answer to a written Question from Mr Andrew Faulds. No tax is charged on objects accepted in lieu, and the question



of interest therefore arises in respect of tax due on other components of the estate. There is no reason why the interest charge on that liability should depend on whether the tax liability on the remainder of the estate is settled in cash or kind. In so far as the acceptance in lieu procedure may take longer than other forms of payment, increases in the value of objects since the date on which tax liability arose will be taken into account in arriving at the amount of tax satisfied, so that any increase in value between the date of liability and the date of acceptance in payment accrues to the offeror, not to the Inland Revenue, and may well exceed any interest included in the overall tax charge. The Government see no reason to change their view on this question."

6 The Government's answer, though valid in 1982, now lies open to criticism.

If an offered item is one of the assets of the estate, it is true that no tax or interest is charged on it because it qualifies prima facie for conditional exemption. The interest is charged on other components of the estate. However, if the tax liability were settled immediately in cash no interest would be charged. When an item is offered in lieu therefore, the tax liability on that portion of the estate cannot be satisfied immediately, and interest is incurred because a different method of settling the tax is used.

Although there is often a period of anything from several months to several years between the date of an offer and its acceptance, the value of the item will not necessarily greatly increase. This depends on market forces and the rate of inflation amongst other things. With interest charges at the current rate of 11% per annum, and inflation between 2 and 3% per annum, the increase in market prices in specialist fields may well not compensate for the interest charges as suggested in the Government's 1982 answer. The situation seems unlikely to change in the present buoyant economic climate, considerably weakening the 1982 view.



7 A further argument against the waiving of interest charges is that executors are always given the opportunity by CTO to place money on deposit during the period of consideration of an offer, thus stopping interest charges. This option, however, is unlikely to be used in the majority of cases. Offers in lieu of tax are generally made because executors do not have sufficient available capital to discharge their tax debt as soon as the estate becomes liable. They offer to settle the debt in kind rather than in cash, and in fact benefit the nation by enriching the heritage and making it available to the public. By charging interest the Government is demanding either more cash or more pre-eminent objects because of the length of time required to administer an offer.

8 The Select Committee recommended that interest charges should be retrospectively waived if an offer is accepted, but this proposal would not satisfactorily solve the problem. It would not alleviate the distress of seeing interest charges mount before it was known whether or not an offer was accepted, and it would still permit interest to be charged on genuine offers which require lengthy periods of consideration but which, for various reasons, are eventually refused.

9 The present proposal is that interest charges should be waived from the date of the offer for a period of up to two years. The case would be reviewed by Ministers after a year from the date of the offer when, if further delays appear to be genuinely necessary, the interest-free period would continue for another year, or a shorter period of more frequent review if considered appropriate. If, in the first review, it appears that delays are being caused deliberately by offerers in order to avoid tax settlement, interest charges would be back-dated to the date of the offer. Charges would not be back-dated if the offer was borderline and had to be rejected after consideration. If after two years the offer had still not been completed, the extension of the waiving of interest would again be a matter for decision by the Inland Revenue on the advice of the Ministers for the Arts and Environment.

10 This proposal, if accepted, would greatly encourage the use of the acceptance-in-lieu system. With its inbuilt



checking and review system, it would not lie open to abuse by frivolous offerers. The proposal would effectively demonstrate that the acceptance in lieu system is an efficient method of acquiring items of heritage importance for the nation, at relatively low cost to the Government.



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From the Minister for the Arts

C87/83

The Rt Hon Nigel Lawson  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON SW1

CO JAN 1987  
MR WALTERS sh  
CST, FST, EST, MST  
SIR P. MIDDLETON  
MR CASSELL 8 January 1987  
MR SCHOLAR  
MISS SINCLAIR, MR GILMORE  
MR BURR  
MR CROPPER PS/IR

Dear Chancellor of the Exchequer

FINANCE BILL 1987: ARTS AND HERITAGE CONCESSIONS

I am writing to give you a few thoughts about the issues on which I would appreciate some help. In the light of the charity-giving changes of the last Budget I am not advocating any major or expensive innovations. However, there is one concession that has long been sought by the heritage world, and for which the Exchequer cost would be small, which I now particularly urge you to consider further.

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# CONFIDENTIAL

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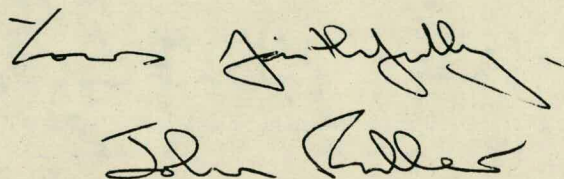
There are a number of other tax related issues which may be appropriate for inclusion in the Budget and which I know would be very well received in the arts world in the coming months.


I understand that the main film trade organisations are arguing for changes which would allow loan financed film production to qualify for the Business Expansion Scheme benefits that at present are confined to equity investments. I would certainly support any changes in this field that encouraged UK film production.

Changes in the basis of taxation of actors and theatre managers and the shift from Schedule D to PAYE are also giving rise to considerable concern. Here again I would lend my support to the representations made. The group affected is not a large one but the consequences in practice (especially if PAYE arrangements are imposed retrospectively) would cause hardship and outcry.

Finally, a distinction is apparently increasingly being made in the VAT rules between business and non-business activities which can bear heavily on arts enterprises whose VAT input arrangements are often mixed in nature. I very much hope that the overall impact of VAT on arts bodies can be dealt with as sympathetically as possible.

I am copying this letter to Nicholas Ridley.



 RICHARD LUCE  
(Approved by the Minister and signed in his absence)

# CONFIDENTIAL



SECRET

2-49a

FROM: D N WALTERS  
DATE: 16 DECEMBER 1986

WALTERS  
→  
CH/EX  
16/12

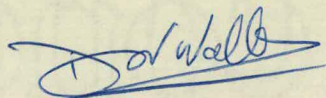
- M/S 17/12*
1. MR SCHOLAR
  2. CHANCELLOR OF THE EXCHEQUER

cc Sir Peter Middleton

**1987 FINANCE BILL STARTERS**

My minute of today's date to the Financial Secretary provides the latest position on Finance Bill Starters. However, for sensitivity reasons, it includes no reference to the possible inclusion of provision to repeal the Exchange Control Act.

2. The latest position is that, following ECOFIN on 8 December, Parliamentary Counsel are being instructed.



D N WALTERS



## CONFIDENTIAL COVERING SECRET

COPY NO 1 OF 27 COPIES

*Please see note attached**MUS 17/12*FROM: D N WALTERS  
DATE: 16 DECEMBER 1986

1. MR SCHOLAR
2. CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir Peter Middleton  
Mr Wilson  
Mr Cassell  
Miss Sinclair  
Miss Evans  
Mr Haigh  
Mr Romanski  
Mr McKenzie  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie

Mr Isaac - IR  
Mr Painter - IR  
Mr Beighton - IR  
Mr Shaw - IR  
PS/C&E  
Mr Willmott - C&E  
Mr Graham - Parliamentary  
Counsel

WALTERS  
→  
CH/EX  
16/12

**1987 FINANCE BILL STARTERS**

... I attach the second series of amendments to the starters list for the 1987 Finance Bill.  
Enclosed are:

- (a) A new index for all Departments (changes sidelined).
- (b) A complete set of summary sheets revised to take account of the latest changes.
- (c) A number of replacement starters forms (changes sidelined)

**New Starters**

2. Since the last submission 11 new starters have been introduced:

- 31 Excise: pool betting duty changes of duty structure
- 169 IHT: Heritage maintenance fund
- 170 Tax relief for employee "buy-outs"
- 171 MIR: Residents basis
- 172 MIR: Higher rate relief
- 173 CGT reform
- 174 Relaxation/abolition of limits on size of FA 1984 approved scheme share options
- 410 Change to the trade licensing arrangements
- 411 Transfer of broadcast receiving licence fee collection responsibility to the BBC
- 412 Tax regime for friendly societies
- 413 VED refunds: provision for alternative procedure of rebates of duty



You will also wish to note that 137 (Stamp duty reserve tax: technical modifications) has been divided into a number of individual forms (numbers A to L), and that a new starter entitled "stamp duty: Crown exemption" is potentially now on the stocks. Details of the latter will be included in the next update if appropriate.

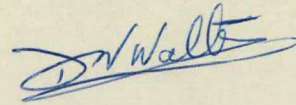
**Summary**

*but see Michael  
Scholar's covering  
note AOK*

3. The attached summary shows the latest state of play as follows:

	Total	Included	Dropped	No final decision yet to include in Bill/under active consideration
IR	86	19	17	50
C/E	31	9	4	18
HMT/Transport	13	-	1	12
Total	130	28	22	80

4. The next update of the starters list will be in the New Year.



D N WALTERS



CONFIDENTIAL

FROM: M C SCHOLAR  
 DATE: 17 DECEMBER 1986

CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Economic Secretary  
 PS/Minister of State  
 Sir Peter Middleton  
 Mr Wilson  
 Mr Cassell  
 Miss Sinclair  
 Miss Evans  
 Mr Haigh  
 Mr Romanski  
 Mr McKenzie  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Tyrie  
 Mr Isaac - IR  
 Mr Painter - IR  
 Mr Beighton - IR  
 Mr Shaw - IR  
 PS/C&E  
 Mr Willmott - C&E  
 Mr Graham - Parliament-  
 ary Counsel

#### 1987 FINANCE BILL STARTERS

For your meeting tomorrow I think the index of starters provides the best agenda: you could skim quickly through it, to get a feel for the overall shape which is emerging from the Finance Bill.

2. Paragraph 3 of Mr Walters' minute scores 80 starters as still under consideration. But the position is considerably brighter than that figure might suggest.

3. Of the 50 outstanding Revenue starters, 14 are concerned with stamp duty. The Economic Secretary had a meeting to discuss these yesterday. Subject to space in the Finance Bill, he agreed that 6 could now be included (Starters 137B, C, J and L, 140 and 142), 3 were possible candidates for dropping (137E, G and K), 2 could be definitely dropped (137H and 141) and further research was required on 3 (137D, F and I).



4. Of the other 36 Revenue Starters on which no final decision has yet been taken, 7 are major budgetary items requiring decision later, 6 have been sent to Counsel with provisional drafting instructions and 4 will be the subject of Revenue submissions before Christmas (111, 124, 148 and 157B). This leaves 19 others at various stages of consideration.

5. On the Customs' side, of the 18 recorded as under consideration, 4 are agreed in principle (6, 8, 18 and 19), 3 will be the subject of submissions before Christmas (13, 15 and 16), 1 is a major budgetary item (1), 1 is an annual revalorisation exercise for VAT threshold limits (9) and 2 will be the subject of minutes by the Minister of State shortly (20 and 25).

6. Details of the Department of Transport's proposals were received only yesterday (letter from PUS to Minister of State of 15 December). FP are aiming to submit advice to the Minister of State before Christmas.

7. Some of the provisions on which decisions have not yet been taken are likely to be complex - for example profit-related pay, capital gains tax, consumer credit tax. Given the pressures on Counsel's time as the Budget approaches, that underlines the need to take as many decisions as possible now on the minor starters. All in all our impression is that we are, so far, fairly well up to timetable overall.

MUS

M C SCHOLAR





Board Room  
HM Customs and Excise  
King's Beam House  
Mark Lane London EC3R 7HE

From: B H KNOX  
Date: 18 December 1986

MINISTER OF STATE

cc Chancellor  
Mr Scholar  
Miss Sinclair

**1987 FINANCE BILL: CUSTOMS AND EXCISE STARTERS**

You asked for a note summarising the position on our starters after the Chancellor's meeting this morning.

2. We can now regard starter 2 (insurance premium tax) as dropped. On starters 24 and 25 (marine diesel oil used in pleasure craft and abolition of match and mechanical lighter duties) we understand that you intend consulting the Chancellor but that the inclination is to drop both.
3. A few starters were declared as borderline. Of those, we are content to drop numbers 13, 16 and 18 and would be pleased to have your agreement. Number 15 can also be dropped from the 1987 Bill but it does contain important elements which will have to be progressed in computer systems changes. This would have the effect of making a starter on these lines essential for 1988 in order to validate work already undertaken. A further note will be supplied shortly explaining that this could be one of a package of measures for 1988 showing, overall, a considerable reduction on burdens on business.

---

Internal circulation: CPS, Mr Hawken, Solicitor, Mr Jefferson Smith, Mr Howard, Mr Nash, Mr Wilmott, Mr Bone, Mr Fisher



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4. Number 17 involves the Lord Chancellor's Department and the Chancellor this morning offered to write direct to hasten action. Our view is that at present further pressure at official level should be sufficient to produce results and we shall progress matters accordingly.
5. The remaining borderline item was number 19. Our view is that this should be included and we would appreciate your agreement.
6. The remaining starters have either been dropped (numbers 10, 12, 21 and 23) or formally included (numbers 1, 3-9, 11, 14 and 26-31) with the exception of numbers 20 and 22 which are linked together on the restructuring of the wine duties and on which we await your decision.

*Bryce Knox*

B H KNOX



*Per*

FROM: D L FRANCIS

DATE: 22 December 1986

MR W F MCGUIGAN

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Cassell  
Miss Sinclair  
Mr Jefferson Smith  
Mr Cropper  
Mr Ross Goobey  
Mr Graham  
Parliamentary Counsel  
PS/C&E

**FINANCE BILL 1987: BETTING AND GAMING**

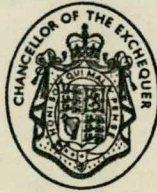
The Minister of State was grateful for your minute of 18 December and approves all the three proposals which you have made. He has commented that the overall neutrality of the package is thoroughly helpful.

*Deborah Francis.*

MISS D L FRANCIS  
Assistant Private  
Secretary



CONFIDENTIAL



FROM: A W KUCZYS

DATE: 23 December 1986

PS/CHIEF SECRETARY

cc PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr A Wilson  
Mr Cassell  
Mr Scholar  
Miss Sinclair  
Mr Walters  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie  
Mr Graham - Parly. Counsel  
PS/IR  
PS/C&E

**1987 FINANCE BILL STARTERS**

Ministers and officials discussed the third edition of the Starters List (circulated by Mr Walters on 16 December, under cover of Mr Scholar's note of 17 December) on Thursday, 18 December. In most cases, the meeting did no more than note the current status of each Starter. This note <sup>only</sup> records any other points that were made.

**General**

2. The Chancellor said that his Ministerial colleagues and officials had made good progress this year. He thought it was a good idea to have a brief run through the list now, not to take decisions, but to encourage early decisions one way or the other wherever possible. Where Starters were "marginal" or "borderline", the tendency should be to drop them now.





**Starter No.24: Marine diesel oil used  
in pleasure craft**

3. The Chancellor said that this was a racket, but it was difficult to deal with. The Minister of State said he was inclined to drop the Starter.

**Starter No.7: VAT cash accounting/annual accounting**

4. The Chancellor said he attached great importance to this Starter. He asked Customs' views on the ceiling, and Mr Knox said they would be clarifying this shortly.

**Starter No.17: VAT Tribunals**

5. Mr Scholar said that there was a delay in the Lord Chancellor's Department. The Chancellor offered to write to the Lord Chancellor if necessary.

**Starter No.2: Insurance premium tax**

6. The Chancellor noted that this was not for 1987.

**Starter No.103: Profit related pay**

7. The Chancellor said that this would need to be discussed separately. However, it was virtually certain that the scheme would go ahead, and he asked that work should be advanced as much as possible. Mr Isaac said that the Revenue were bringing in extra resources in this area: the Chancellor asked that he should be informed if there were any problems.

**Starter No.111: Taxation of income support**

8. Mr Isaac reported that this was held up in Department of Employment. (After the meeting, he reported that this problem had now been resolved).





**Starter No.125: Tax treatment of woodlands**

9. The Chancellor and Financial Secretary had agreed that this was not for this year.

**Starter No.131: Tax neutral maintenance payments**

10. The Financial Secretary reported that this would be controversial. He advised, and the Chancellor agreed, that it should not be one for 1987. Mr Graham noted that it had short-term <sup>resource</sup> implications for the Lord Chancellor's Department.

**Starter No.170: Employee buyouts**

11. The Chancellor said there was a lot of interest in this area, and this should be a firm Starter for 1987. There had been some delays, but Mr Isaac said that this would be one of the responsibilities of the new Grade 5 post the Revenue were creating.

**Starter No.174: Limits on share options**

12. The Chancellor said that he hoped the limits could be lifted for genuine case, while still retaining some safeguard against abuse.

**Starter No.120: Pay and file**

13. Mr Graham said that, although the legislation was already drafted, it might be possible to shorten it.

**Starter No.123: Business Expansion Scheme**

14. The Financial Secretary said that any decision should await the availability of firmer figures in January.

**Starter No.151: Capital allowances (BP case)**

15. The Revenue were sending the Chancellor a note on costs, etc.





**Starter Nos.155 and 156: Lloyds**

16. The Economic Secretary said that the Revenue were keen to have both Starters. Mr Graham said that drafting would not be easy. The Chancellor wondered whether these might be postponed until 1988: he awaited the Economic Secretary's recommendations.

**Starter No.147: CGT relief for Venture Capital**

17. The Chancellor said that we must find a solution to the problem; and in particular do something about Section 79, which stopped some worthwhile activity. The Financial Secretary thought there was a case for making an announcement in 1987, but legislating on a slower timescale.

**Starter No.165: Inheritance tax business relief**

18. The Financial Secretary was pursuing a limited relaxation proposed by the Chancellor.

**Starter No.136: Stamp duty threshold**

19. The Chancellor said that, despite the manpower implications, he did not see this as a Starter for 1987.

**Starter Nos.137-143**

20. Mr Isaac said that it would be helpful to have early decisions from the Economic Secretary on this series of small Stamp Duty Starters. The Economic Secretary had, of course, been heavily involved in the Banking Bill.

**Starter No.113: PRT valuation rule**

21. Mr Painter reported that consultations were going on: the industry seemed to want a wider-ranging measure than had been proposed. He still hoped it would be possible to meet the planned starting date of 1 January.



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**Starter No.129: PRT cross-field allowance**

22. Mr Painter noted that drafting on this measure would be very complex; the Revenue were instructing Counsel on a provisional basis.

**Starter No.127: Dual resident companies**

23. The Chancellor said that now that the United States had acted, the UK must also legislate - and the legislation had already been drafted.

**Starter Nos.118 and 119: Keith**

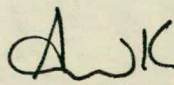
24. The draft legislation was out for consultation, with responses due by February. Mr Graham said that if necessary, the clauses might be introduced as they stood, and amended in Committee. The Chancellor noted that this was a highly emotive subject.

**Starter No.413: VED refunds**

25. Mr Graham said that this one needed "pushing along".

**Starter No.411: TV licences**

26. Mr Graham said that this was on the borderline of what could be put in a Finance Bill. The Chancellor said he would be content for a new clause to be introduced in Committee: he asked Mr Graham to discuss eligibility with the House authorities on a contingent basis.

  
A W KUCZYS



CONFIDENTIAL



FROM: APS/Minister of State

DATE: 13 January 1987

MR TREVETT - C&E

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham - Parly Counsel  
PS/Customs & Excise

FINANCE BILL 1987 STARTER No 16: SELF BILLING - LIABILITY OF  
SUPPLY TO BE THE RESPONSIBILITY OF PERSON ISSUING THE TAX INVOICE

The Minister of State has seen your submission of 9 January,  
and is content to drop this starter for 1987, as you suggest.

S.P.J.

S P JUDGE  
Private Secretary





Inland Revenue

Policy Division  
Somerset House

28

FROM: H B THOMPSON

DATE: 19 JANUARY 1987

- 19/1
1. MR HOUGHTON
  2. FINANCIAL SECRETARY

Finance Bill Starter No.169

Inheritance Tax: Creation of Heritage  
Maintenance Fund on death of Life Tenant

1. Mr Williams's note of 16 December to Mr Houghton approved the recommendations in my submission of 12 December. The submission discussed the Historic Houses Association (HHA) proposal for exemption from inheritance tax when trust property is put into a heritage maintenance fund within a limited period after the death of a life tenant and sought authority to give provisional instructions to Parliamentary Counsel. We have not yet sent instructions because further input from the HHA suggested to us that the structure of the relief might depend on the form of recapture charge required - a matter that was left open in my submission. This note discusses the recapture charges that will be needed in connection with the exemption and the arrangements for entry into force.

---

cc PS/Chancellor of the Exchequer  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Monger  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Haigh  
Mr Graham (Parliamentary Counsel)

Chairman  
Mr Isaac  
Mr Painter  
Mr Houghton  
Mr Calder  
Mr Lawrance  
Mr Cleave  
Mr Furey  
Mr Gonzalez  
Mr Brown  
Mr Johns  
Mr Kent  
Mr Thompson  
Mr Hamilton  
Mr McKean  
Mr Denton  
Mr Lakhanpaul  
PS/IR



## RECAPTURE CHARGE

2. The recapture charge when property leaves a maintenance fund sometimes depends on the cumulated giving of the "settlor" of the fund. The point at issue is whether the charge is correctly focussed when the property was in an interest in possession (IIP) trust before it became held on maintenance fund trusts. This paper concludes that it is not, and **recommends** an alteration in the rules.

### Background

3. IHT heritage reliefs are not absolute. Exemption subsists only while the property and the way it is administered continue to qualify. When entitlement ceases there is a tax charge that seeks to recapture the tax given up on the original transfer to the heritage regime. Under the general structure of the system, the recapture charge is normally calculated by reference to the circumstances of the person who made the original heritage transfer. In the maintenance fund area the recapture charge rules are more complicated. The **Annex** to this note sets out their broad effect. The difficulty centres on the second alternative method of charge described in paragraphs 5 and 6 of the Annex. Under this method of charge, the rate of tax is based on the cumulated giving of the "settlor" in order to recapture the tax forgone when the property was put into the maintenance fund. This works as intended when the property was put into the fund by an individual who owned it outright. The tax forgone is tax on a transfer of value by that individual, and because he is the clear and only settlor of the maintenance fund trust the recapture charge is based on a transfer of value by him.

4. The charge does not work properly when the property was previously held on IIP trusts. This is because the general definition of settlor (paragraph 7 of the Annex) applies for the recapture charge rules. The tax forgone is tax on termination of a life interest; that is to say, tax on a



transfer of value to the maintenance fund trusts by the person (the "life tenant") whose interest has thereby terminated. But he will not be the "settlor" of the maintenance fund. He does not make a settlement nor does he provide funds for one; his interest is not transferred: it simply terminates. Depending on circumstances, the "settlor" may be the settlor of the original trust that has been converted into a maintenance fund or the reversionary beneficiaries whose interest has gone into the fund; or both. So the recapture charge is based on a transfer of value by the original settlor or the reversioners or both. It is not related to the tax forgone on a transfer by the life tenant. Much tax may be lost if there are several settlors, because the charge is fragmented and each settlor is allowed his own threshold and lower rate bands. On the other hand, the charge could be too high. Tax recovered by reference to the circumstances of a rich original settlor could be greater than the tax forgone on the death of a comparatively poor life tenant.

5. This inaccurate targetting of the recapture charge is not new and would not be peculiar to IIP property transferred to maintenance funds under the new facility for tax-free transfers after the death of a life tenant. It already occurs when property held in an IIP trust is transferred to maintenance fund trusts within the same settlement while the life tenant is alive, or transferred on the life tenant's death under advance arrangements made in his lifetime. It has been part of the system since the 1982 revision of the CTT trust regime.

6. We cannot be sure why the anomaly was created in 1982, but it seems to have been an accident. In the original version of the 1982 revision there was a flat rate charge only, and no provision for property held in an IIP trust to be transferred to maintenance fund trusts within the same settlement. The present IIP trust transfer facility and the



alternative charge based on a transfer of value by the settlor were introduced with other amendments at Report stage, in response to comments in Committee and also (in the case of the alternative recapture charge) to prevent abuse. We believe our predecessors did not have sufficient time to think the problems right through.

7. We cannot say that the mistake - if such it was - has yet caused either loss of tax or overcharge. But the creation of the new facility provides an opportunity to put matters right.

#### Proposal

8. We raised the question of the proper targetting of the recapture charge when we discussed the new facility with representatives of the HHA on 26 November and have since discussed it with them in more depth. They acknowledge the arbitrary nature of the existing charge. They are also concerned that the recapture charge in cases where IIP property goes into a maintenance fund under the new exemption for post-death transfers should not differ from the charge when the IIP property goes into such a fund under the existing arrangements. We have reached an understanding with them that if Ministers decide to create the new exemption facility, it would be appropriate to **amend the recapture charge rules so that in all cases where exemption is given for a transfer from an IIP trust to a maintenance fund, the "life tenant" whose interest terminates at the time of the transfer will be regarded as the settlor for the purpose of the second alternative recapture charge.**

9. This will have some technical consequences on the fine print of the recapture charge rules, where tax-free extractions, reversions and resettlements are allowed in certain events. These rules are designed to allow funds to be adjusted when the death of the settlor alters or removes the maintenance requirement (perhaps because the focal heritage property changes hands at that time) and to allow



tax-free reversion to the settlor or his spouse or widow in certain circumstances where such a reversion would have been tax free if it had taken place at the time the property entered the maintenance fund. There are also special rules for identifying the "settlor" when property has passed through more than one maintenance fund settlement before a recapture charge arises. All these rules will need to be reviewed and if necessary adjusted to make them mesh in with the provision of the new facility and the re-focussing of the recapture charge.

#### ENTRY INTO FORCE

10. If we follow the usual arrangements for the entry into force of new IHT reliefs, the new exemption facility will become available in respect of deaths on and after Budget Day. We have considered whether it would be appropriate to allow an element of retrospection by proposing that the facility should be available if the property is put into a maintenance fund after Budget Day but the life tenant died shortly before. We see no need for that. There would be problems about where to draw the line, and about when the time limit for re-adjustment of the succession to the property should start to run. We do not think the HHA will demur.

11. Any revision of the recapture charge rules would naturally apply to all property that enters maintenance funds under the new facility. If the revised rules are also to apply to property that enters under the existing facility it will be necessary to decide whether they should apply to all such property or only to property that enters under the existing facility in the future. We propose that **the revised rules should apply to all post-Budget recaptures related to former IIP property that entered the fund under either the 1982 IIP facility or the new facility, regardless of the date of entry.** Given that the entries under the 1982 facility are in single figures and that the new rules will



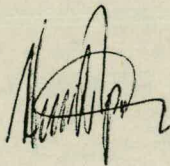
often produce a lower charge, we see no need for transitional provisions. Again, we think the HHA will not demur.

SUMMARY

12. We recommend

- that the new exemption for post death transfers of IIP property to maintenance funds should have effect for deaths on and after Budget Day (paragraph 10); and
- that the recapture charge rules should be amended as described in paragraphs 8 and 9, the amendments to take effect for charges arising on and after Budget Day without transitional provisions (paragraph 11).

13. We shall be glad to know whether you are content with these recommendations, and if so to receive your authority to instruct Parliamentary Counsel to draft the appropriate legislation (which should be within the previous estimate of up to 2 pages).



H B THOMPSON



Starter No.169Heritage Maintenance FundRecapture Charges under present legislationBACKGROUND

1. Property can be taken out of a maintenance fund for non-heritage purposes after it has been in the fund for six years, or after the death of the settlor if that occurs sooner. Except in certain cases, there is then a tax charge. The exceptions cover charitable gifts and reversions to the settlor or his spouse or widow.
2. The purpose of the charge is to recapture the maintenance fund tax reliefs given in respect of the property. There are three reliefs that may have been given: relief from tax on the initial transfer of the property to a maintenance fund, relief from tax when property passes from one maintenance fund to another, and relief from ten-yearly discretionary trust charges while the property has been in a maintenance fund.
3. The recapture charges do not attempt to recover the reliefs given at their historic rates. Instead, they look through the sequence of events and impose an appropriate current charge on the value of the property when it leaves the maintenance fund.
4. In the simplest cases, where property first entered a maintenance fund from a discretionary trust, the recapture charge is a simplified form of recovery of the relief from discretionary trust ten yearly and proportionate (time based) exit charges. These charges vary, but for a modern discretionary trust they are normally based on the settlor's pre-trust cumulation of chargeable transfers. The simplified form is a flat rate tax, tapered over time, calculated by reference to the period that has elapsed since the property entered the discretionary trust regime or since it was last



subject to a ten-yearly charge. This picks up both the exemption from the time-based discretionary trust exit charge on the transfer to the maintenance fund and the exemption from ten-yearly charges while the property is in the fund.

5. In all other cases there are alternative methods of charge and we take whichever produces the higher amount of tax. The first alternative method is the tapered flat rate mentioned in paragraph 4, but based on the time the property was in the maintenance fund itself. This is likely to provide a poor recompense for tax forgone on the entry into the fund. The second alternative method provides a more effective safeguard against tax loss. It looks through the sequence of events and taxes the maintenance fund exit as if it was a transfer made at that time by the "settlor" of the fund. The intervening events - the transfer to the fund and exemptions while the property is there - are effectively ignored.

6. The rate of charge under the second alternative depends on the circumstances. If the settlor is still alive, the charge is based on his cumulation of chargeable transfers at the time of the maintenance fund exit. The charge is at half the current scale rate. If the settlor is dead, the charge is based on treating the property as an additional top slice of his death estate; if the settlement was made on death, the charge is at the full current scale rate and if not it is at half that rate.

7. The term "settlor" has a wide meaning. It includes any person by whom the settlement was made directly or indirectly and any person who has provided funds directly or indirectly for the settlement. There are complicated provisions in the main body of the IHT legislation for looking through a series of settlements and for cases where there is more than one "settlor".





Inland Revenue

Policy Division  
Somerset House

FROM: J H REED

DATE: 20 JANUARY 1987

1. MR MCGIVERN *see note at end*
2. FINANCIAL SECRETARY

## INTEREST PAYMENTS BETWEEN COMPANIES: FINANCE BILL STARTER 176

1. I regret having to raise a new Finance Bill starter. This is the result of our having lost a case in November before the Special Commissioners. Our Solicitor has advised us that there is no prospect of success in the Courts and so we have decided not to appeal. Although Special Commissioners decisions are not published it can only be a matter of time before news of the result spreads among tax advisers. Although the tax at issue in the group of companies involved in the case is less than £0.5 million the potential tax loss from this device is large - depending upon the use which the largest groups made of the device, the cost could run into hundreds of millions.

2. The point at issue is quite simple. It concerns the tax effects of one company paying yearly interest by cheque to another company. In the hands of the payee it has been held to be received for tax purposes when the cheque is presented. But the Special Commissioners have now decided that where the payment is made, at the request or by the authority of the payee, by cheque sent by post the paying company gets relief by reference

## cc PPS

Chief Secretary  
Economic Secretary  
Minister of State  
Mr Wilson  
Mr Cassell  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham (OPC)

Chairman  
Mr Painter  
Mr McGivern  
Mr Lawrance  
Mr Pitts  
Mr Cleave  
Mr Whitear  
Mr Campbell  
Mr Bates  
Mr O'Connor  
Mr Reed  
Mr Carr  
PS/IR



to the date when the cheque is posted. While there will normally be only a few days difference between these dates this decision opens up widespread scope for abuse, particularly within groups of companies. The reason for this is that a tax liability is usually determined on an annual basis and so a difference of a few days is enough to put the tax effects into different years. An example may help.

#### Example

Companies A and B are members of a group. Company A has a loan from company B on which it pays annual interest. A Section 256 election is in force so that the interest is paid without deduction of tax. Both companies have an accounting date of 31 December. The interest is by agreement paid by cheque posted on 30 December, but company B does not present the cheque until January. The effect is that company A can deduct the interest from its profits in the first year but company B is not taxed on the interest until the second year. While the loan continues the effect of this is that there is a net deduction in the first year of the loan but the subsequent interest payments cancel out (looking at the group as a whole). Of course, if the loan is repaid, in the final year company B will be taxed while company A gets no relief. So overall the taxable payments and receipts of interest cancel but while the loan persists there is an advantage. And when the loan is repaid there is no reason why a new loan should not be advanced, so maintaining the advantage.

3. This example shows successful tax avoidance and it is this which worries us - we do not see any pressing need to do anything in the case where this mismatch arises by chance. Our proposed solution reflects this view. In principle, the only effective limit on the use of the avoidance device is the group's total taxable profits - ie the whole of its mainstream corporation tax liability can be eliminated in the first year of the loan or loans and the same can be done in following years by making new loans. In practice, we imagine that many groups would not go this far because it would be blatant tax avoidance. But we have



seen the Habitat Design avoidance device (CT payment dates) used by several household names and the same could happen here. Indeed the case before the Special Commissioners involved a well-known company and the payment arrangements were clearly designed for avoidance purposes.

#### Remedy

4. We recommend that where annual interest (or other annual payments, such as royalties) is paid between two members of a group of companies the date on which payment and receipt take place for corporation tax purposes should be made the same. This date should be the date on which payment by the paying company is currently treated as taking place, ie the date when a cheque is posted. This would admittedly make the recipient company taxable slightly before it had obtained the use of money but of course the paying company would get tax relief a similar amount of time before it had lost the use of the money. And since we are dealing with members of a group of companies this result does not seem unreasonable. But extending the proposed new rule to companies generally would undoubtedly be criticised and that is why we recommend against this. This means that there would continue to be a mismatch where interest is paid between companies which are not members of a group and this would reduce tax receipts below what they would be if there were no mismatch. But we do not see the same scope for deliberate avoidance here as there is when the companies are members of a group, although we shall let you know if we come across significant cases of avoidance.

5. One reason why we see less scope for avoidance is that when a company pays yearly interest it normally has to withhold income tax at the basic rate (it does not have to if the interest is paid to a bank but a bank is taxed on interest when it falls due, not when it is received, and so there is no scope for avoidance). So if it is due to pay interest of £100 it actually pays over £71 and is liable to pay the other £29 to the Revenue. With the main



rate of corporation tax being 35 per cent the amount of tax which can be postponed by the mismatch becomes only 6 per cent of the amount of interest (ie 35 per cent less the basic rate of income tax of 29 per cent). But if the interest is payable between members of a group of companies they can, as in the example, elect under Section 256, ICTA to pay the interest gross (ie without deduction of basic rate income tax). In this case, the tax which can be postponed by the mismatch is the full 35 per cent of the amount of the interest. So for a given amount of borrowing the tax loss is much greater.

6. There would therefore be a case for restricting the new rule we are proposing to the case where interest is paid under a Section 256 election between members of a group of companies (or from a company owned by a consortium to a member of that consortium). But there is no obligation upon companies to make a Section 256 election and they might choose not to do so in order to take advantage of the mismatch. While the tax saved would be much smaller for a given amount of borrowing there is no reason why the borrowing should not be increased to whatever size is necessary to save the desired amount of tax. So we think it would be better to apply the proposed new rule where a Section 256 election is in force or could have been made (ie between members of a group of companies or from a consortium company to the members of the consortium).

#### Companies under common control

7. There is also a case for applying the new rule where the companies are not members of a group but are under common control. This might be criticised for going too far but the fact that the companies are under common control and could make use of the avoidance device would be a reasonable justification for applying the new rule to them.

#### Set-off of income tax

8. If no further change were made a new mismatch would be created. Where a company both receives and pays interest subject



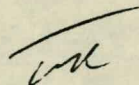
to deduction of income tax there is a special provision (in Schedule 20, Finance Act 1972) allowing the income tax deducted from the interest received to be set against the income tax deducted from the interest paid, with only any net balance being due to the Revenue. This special provision operates by reference to the date of receipt of the interest. At present, this is satisfactory because that is the same date as the one on which the interest is treated as being received for the purposes of corporation tax. But if that rule is changed as we propose the effect would be that where the new rule applied the interest would be treated as received earlier for the purposes of being charged to corporation tax than for the purposes of set-off. We therefore propose to remove the mismatch by bringing forward the date of set-off. Where this makes a difference this will usually benefit the company and so we would not expect this change to be criticised.

#### Conclusion

9. This note deals with a possible tax avoidance device, involving the indefinite deferment of tax on interest. We have no evidence that its use is widespread or that the tax loss is substantial. But following our recent defeat in a case before the Special Commissioners we would expect the use of the device to be much increased. It is a matter of judgement whether the risk of this is sufficiently great to justify legislation this year or whether a year's delay is unlikely to cost too much. But our advice is to legislate this year. This legislation would apply where interest is paid between members of a group of companies or companies under common control and would bring forward the date when it is treated as received for tax purposes to make it the same as when it is treated as paid. We estimate that this would require no more than one page of legislation (although we have not yet consulted Parliamentary Counsel).

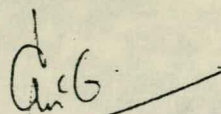


10. We recommend that this change should apply to interest paid after Budget day (there is virtually no risk of avoidance through interest payments on Budget day itself). There should be no significant effect either on Inland Revenue staff requirements or on compliance costs.



J H REED

As Mr Reed has explained, the Special Commissioners' decision has opened the way to a simple and potentially very costly tax avoidance device which I believe will become widely known to company groups and their advisers. Whilst we cannot point to a significant loss of tax at present, if the device were to be used by the largest groups the tax at stake could run into some hundreds of £ millions. The Habitat case has quite clearly demonstrated that the deferral of substantial tax liabilities - which is what we are talking about here - can be very attractive to large companies. And with the arrangements used by Habitat (and others) being closed-off, this device might well prove an irresistible and costly substitute. My advice would be to legislate now before it catches on.



E MCGIVERN



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88

FROM: N WILLIAMS  
DATE: 26 January 1987

MR REED IR

cc Principal Private Secretary  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Wilson  
Mr Cassell  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham OPC  
Mr McGivern IR  
PS/IR

**INTEREST PAYMENTS BETWEEN COMPANIES: FINANCE BILL STARTER 176**

1. The Financial Secretary was grateful for your submission of 20 January.
2. The Financial Secretary is content for this Starter to be included on a provisional basis.
3. One of the factors that the Financial Secretary would like to be able to take into account when making his final judgement as to whether this should be definitely included is the length of legislation required.
4. I would be grateful therefore, if you could consult Parliamentary Counsel and provide the Financial Secretary with a firmer estimate of how much Finance Bill space this measure would require.

**NIGEL WILLIAMS**  
(Assistant Private Secretary)





FROM: APS/Minister of State

DATE: 26 January 1987

MR P TREVETT - C&E

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Jenkins - Parly Counsel  
PS/Customs & Excise

**FINANCE BILL 1987 STARTER No 18: VAT REGISTRATION OF OVERSEAS TRADERS**

The Minister of State was grateful for your minute of 22 January. He is content with your proposal to leave this starter for another year.

*Deborah Francis.*

**MISS D L FRANCIS**  
Assistant Private Secretary



*psw*



FROM: A C S ALLAN  
DATE: 27 January 1987

MR B O DYER

cc PS/Chief Secretary  
PS/Financial Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Scholar  
Mr Graham - Parly Counsel

**1987 FINANCE BILL: TIMETABLE**

The Chancellor was grateful for your minute of 25 February. He thinks the greater flexibility may prove useful.

ACSA

A C S ALLAN





FROM: N WILLIAMS  
DATE: 28 January 1987

MR THOMPSON IR

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir P Middleton  
Mr Cassell  
Mr Monger  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Haigh  
Mr Graham OPC  
Mr Houghton IR  
PS/IR

**FINANCE BILL STARTER No.169**

**INHERITANCE TAX: CREATION OF HERITAGE**

**MAINTENANCE FUND ON DEATH OF LIFE TENANT**

1. The Financial Secretary was grateful for your further note of 19 January which he subsequently discussed with you, Mr Houghton and Mr Haigh.

2. The Financial Secretary is content with the recommendations in your note as summarised in paragraph 12 to the effect that

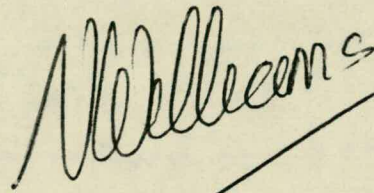
(i) the new exemption for post death transfer of IIP property to maintenance funds should have effect for deaths on and after Budget Day.

(ii) the recapture charge rules should be amended as described in paragraphs 8 and 9 of your note, the amendments to take effect for charges arising on and after Budget Day without transitional provisions.



BUDGET: CONFIDENTIAL

3. The Financial Secretary is, therefore, also content for you to instruct Parliamentary Counsel to draft the appropriate legislation.

A handwritten signature in cursive script, appearing to read "Nigel Williams".

**NIGEL WILLIAMS**  
**(Assistant Private Secretary)**





28

FROM: N WILLIAMS  
DATE: 28 January 1987

MR JOHNS IR

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham OPC  
PS/IR

**FINANCE BILL STARTER 163: PRE-CONSOLIDATION AMENDMENTS**

1. The Financial Secretary was grateful for your note of 26 January.
2. The Financial Secretary is content for you to proceed on the basis outlined in your note.
3. He has commented, however, that he regards it as essential that all the amendments are ready before publication of the Finance Bill.

**NIGEL WILLIAMS**  
(Assistant Private Secretary)



FROM: M A JOHNS  
DATE: 26 JANUARY 1987

INLAND REVENUE  
CENTRAL DIVISION  
SOMERSET HOUSE



*[Handwritten signature]*

FINANCIAL SECRETARY

FINANCE BILL STARTER 163: PRE-CONSOLIDATION AMENDMENTS

1. In July 1983 Treasury Ministers approved plans to support the Law Commission's proposal to consolidate the legislation relating to income and corporation tax. This was last done in 1970 and practitioners are now working from the Income and Corporation Taxes Act and 16 years of subsequent Finance Acts. The representative bodies have been pressing for consolidation for some time to make tax work easier for the taxpayer and his adviser and the plan (as announced by a PQ of 20 July 1983 - see Press Release attached) is to introduce a consolidated bill early in the 1987/88 session.

2. Since they do not involve any change in substantive law, pure consolidation bills are subject to special and shorter procedures in Parliament. They are Law Commission Bills introduced under the Lord Chancellor's aegis in the Lords following consideration by the Joint Committee on Consolidation. They are passed in a few days. But the process of drafting the consolidated structure of legislation invariably throws up quite a number of minor tidying up changes which are needed. They are largely changes of language for removing doubts in the legislation which cannot be tackled in the consolidation itself, facilitating the clearer statement of

---

cc Chancellor  
Chief Secretary  
Economic Secretary  
Minister of State  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham (Parliamentary Council)

Mr Isaac  
Mr Painter  
Mr Beighton  
Mr P Hall  
Mr Johns  
Mr Moule  
PS/IR



the law or removing minor anomalies and distinctions with no significance in practice. However, as these change the law, albeit in extremely minor ways, they have to be introduced by a separate legislative vehicle if the Consolidation Bill is to receive the special accelerated treatment in Parliament. In the case of tax legislation these changes are made in the Finance Bill preceding consolidations by a Schedule of "pre-consolidation amendments" with a brief introductory clause.

3. This year's Finance Bill is the last before the planned consolidation of the income and corporation tax legislation so we need Ministers' authority to include a clause and Schedule of pre-consolidation amendments in it. The amendments are already effectively being drafted as the work of consolidation proceeds. We do not yet know how long the amendments will be but last time in the 1969 Finance Act they amounted to 22 pages (of the previous, smaller size equivalent to about 15 today). They should, however, be totally uncontroversial. They may not all be ready in time for the original publication of the Bill but there are precedents (eg in the 1984 Finance Bill for CTT consolidation) for additions at Committee Stage.

4. When the total length becomes clearer we will let you know. In the meantime this note is for information and to check you are content for us to proceed on this basis.

*M. A. Johns*

M A JOHNS





# INLAND REVENUE Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB  
PHONE: 01-438 0692 OR 6706

[3x]

21 July 1983

## CONSOLIDATION OF INCOME AND CORPORATION TAXES ACTS

In a Written Answer to a Parliamentary Question:

"To ask Mr Attorney General, when Her Majesty's Government proposes to consolidate into a single Act the Finance and related legislation following the Income and Corporation Taxes Act 1970"

the Solicitor General, Sir Patrick Mayhew QC MP, yesterday gave the following reply:

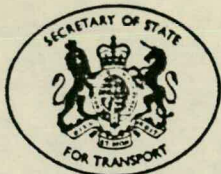
"The Law Commission has already decided, with the concurrence of the Commissioners of Inland Revenue, to begin work on the consolidation of this legislation this Autumn. It is hoped that a consolidation Bill will be ready for introduction early in the session 1987-88."

### NOTE FOR EDITORS

1. The Income and Corporation Taxes Act 1970 (ICTA) is itself a consolidating Act, bringing together the principal legislation on income tax and corporation tax as it stood in 1970. (There were two previous consolidations of income tax legislation - in 1918 and 1952.) Extensive changes to the tax system have, however, been made since 1970 in the annual Finance Acts. Many of the provisions in ICTA have been either repealed or amended, and some have been amended several times. As a result it may be necessary to refer to several Acts to establish the current state of the law on any particular point. Consolidation provides an opportunity for bringing together the existing statutory provisions relating to each subject in a more easily understood form. Tax practitioners and others who are interested in this field will, therefore, generally welcome the consolidation of this legislation.
2. A consolidating Act does not involve any change in the law; but if necessary preliminary amendments to facilitate consolidation may be included in a Finance Act.
3. Consolidation of statute law is the responsibility of the Law Commission. The timing of a consolidation measure in any particular field depends on the availability of drafting resources and its priority relative to other legislation needing consolidation.
4. ICTA runs to almost 700 pages and the subsequent legislation to be dealt with already amounts to another 700 pages. The relevant parts of subsequent Finance Acts up to 1987 will also be included in the consolidation Act. Drafting it is thus a formidable task which will require the full time services of one of the Parliamentary Draftsmen, with assistance from Inland Revenue lawyers and specialists, for about 4 years.
5. Some other tax law has recently been consolidated, or is already in the process of consolidation. The capital gains tax legislation was consolidated into the Capital Gains Tax Act 1979, and work on the consolidation of the capital transfer tax legislation is in hand, and it is hoped to complete it next year.



*Ruf*



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3454

The Rt Hon John MacGregor OBE MP  
Chief Secretary to the Treasury  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

CHIEF SECRETARY	
REC.	29 JAN 1987
ACTION	<i>Mr Revolta</i>
COPIES TO	<i>Mr Butler Mr Anson</i>
	<i>Mr Buge Mr Gilmore Mr Scholer</i>
	<i>Mr Turnbull Mr Gieve</i>

*A* January 1987

*McCoye McIntyre*

*Dear John*

**FEES AND CHARGES: LEGAL QUERY**

You may recall that during the course of the last PES bilateral discussion we touched briefly on the scope for further increasing vehicle and driver licensing fee levels and concluded this was neither practicable nor desirable. One general obstacle mentioned, was the shadow cast by the Select Committee on Statutory Instruments who had challenged the inclusion of certain costs in licence fees.

I understand that, in the light of advice from the Solicitor General (to the effect that the inclusion of certain types of enforcement cost is ultra vires), Treasury officials asked Departments to review their fee charging practices against the powers conferred. That assessment has now been concluded and I understand three Departments are mainly involved (Lord Chancellor's Department, Department of Trade & Industry and DTp). My Department's own assessment casts doubts on the recovery of up to £20m of Departmental costs, involving some 12 licensing activities; all but about £1m of the £20m is non-PES receipts. It appears that the total sum at risk across the three Departments may be up to £150m.

In the light of the Law Officers' advice, I am clear that we must remove the vires doubts as soon as we can. Also, given the revenue at risk, I imagine you would not want to risk a successful challenge in the Courts. I strongly recommend that these legal doubts are resolved by early general legislation, for two reasons. First, there are no legislative measures presently on the stocks in my own Department to which we could attach the necessary amending provisions; there can be no guarantee of early legislation

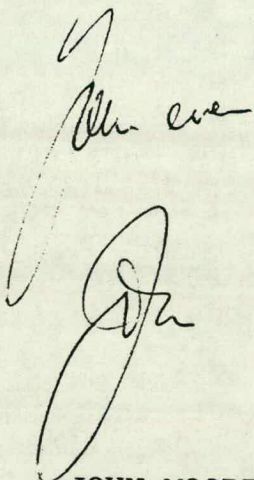


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in the 1987/88 session. Secondly, it would be tactically imprudent for Departments to be moving at a different pace, possibly with different legislative approaches. Worse, once one of the three Departments exposed the problem, the remaining two would risk challenge in the courts before their legislation came forward.

In the interests of prudent administration, and given our vulnerable position, I hope you might be prepared to consider whether this year's Finance Bill could be a suitable vehicle. If it would help we would be prepared to take the lead on drafting instructions.

I am copying this letter to the Lord Chancellor and the Secretary of State for Trade and Industry since their Departments face similar difficulties, and to the Solicitor General.



Handwritten signature of John Moore, consisting of a stylized 'J' followed by 'Moore' in cursive.

JOHN MOORE

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INLAND REVENUE  
CENTRAL DIVISION  
SOMERSET HOUSE

FROM: M A JOHNS  
DATE: 2 February 1987

FINANCIAL SECRETARY

**FINANCE BILL STARTER 163: PRE-CONSOLIDATION AMENDMENTS**

Thank you for your approval for us to proceed with these. We and the draftsman will do what we can to ensure that the necessary amendments are ready for inclusion in the Finance Bill on publication. However, there is, inevitably, in a consolidation of this magnitude the possibility that all desirable amendments will not be identified by then. There is much yet to be done. In particular the draftsman does not see Budget classified material and so may not be made aware in advance of publication of minor changes stemming from this year's Bill. There may be late changes needed as the result of other bills proceeding through Parliament.

If late amendments required for the consolidation were thrown up there would be a choice (if account could not be taken of them) between deferring consolidation a year (which would require bringing in the Lord Chancellor and Law Commission) and consolidating the legislation in less than ideal form. But this choice does not have to be taken now. We will come back to you when we see how the situation looks and in the meantime will press ahead as fast as resources permit.

*M. A. Johns*

M A JOHNS

---

cc Chancellor  
Chief Secretary  
Economic Secretary  
Minister of State  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham (Parliamentary Counsel)

Mr Isaac  
Mr Painter  
Mr Beighton  
Mr P Hall  
Mr Johns  
Mr Moule  
PS/IR





**FROM: N WILLIAMS**  
**DATE: 3 February 1987**

**MR JOHNS IR**

cc **PS/Chancellor**  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham OPC  
PS/IR

**FINANCE BILL STARTER 163: PRE-CONSOLIDATION AMENDMENTS**

1. The Financial Secretary was grateful for your further minute of 2 February, the contents of which he has noted.

**NIGEL WILLIAMS**  
**(Assistant Private Secretary)**





**FROM: N WILLIAMS**  
**DATE: 4 February 1987**

**MR REED IR**

cc **PS/Chancellor**  
PS/Chief Secretary  
PS/Economic Secretary  
Mr Wilson  
Mr Monck  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr McGivern IR  
PS/IR

**PAYMENT OF INTEREST BETWEEN GROUP COMPANIES**

1. The Financial Secretary was grateful for your note of 27 January.
2. He agrees with your recommendation that no action should be taken on either of these points in this year's Finance Bill.

**NIGEL WILLIAMS**  
**(Assistant Private Secretary)**



## BUDGET SECRET

6/87.

COPY NO 2 OF 25 COPIES

FROM: D N WALTERS  
DATE: 4 FEBRUARY 1987

1. MISS SINCLAIR
2. FINANCIAL SECRETARY

cc PS/Chancellor  
 PS/Chief Secretary  
 PS/Economic Secretary  
 PS/Minister of State  
 Sir Peter Middleton  
 Mr Wilson  
 Mr Cassell  
 Miss Evans  
 Mr Haigh  
 Mr Romanski  
 Mr MacKenzie  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Tyrie  
 Mr Isaac - IR  
 Mr Painter - IR  
 Mr Beighton - IR  
 Mr Shaw - IR  
 PS/C&E  
 Mr Wilmott - C&E  
 Mr Graham - Parl. Counsel

I hope you will agree that what is needed from now on is a regular summary of the position on decision-taking and drafting, not a full revision of the starter sheets. We aim to circulate such a summary every 10-14 days between now and the Budget.

DNW  
5/2.

**1987 FINANCE BILL STARTERS**

... I attach the third series of amendments to the Starters List for the 1987 Finance Bill.  
 Enclosed are:

- (a) a new index for the Inland Revenue (changes sidelined)
- (b) a complete set of summary sheets revised to take account of the latest changes
- (c) a number of replacement Starter Forms (changes sidelined)

**New Starters**

2. Since the last submission five new starters have been introduced.

175: Stamp duty: Crown exemption

176: Interest payments between companies

177: IHT: interest in possession trusts

178: Double taxation agreements: exchange of information

179: Oil allowances

180: Unexpected appeal decision: foreign partnerships (details not yet available for the summary sheet and it is therefore not included in the count in paragraph <sup>below</sup> 4)

WALTERS  
5  
F&T  
4/2



3. You will also wish to note that 155 (Lloyds) has been divided into two individual forms while Starter 138 (Stamp duty: Financial Services Act consequential amendments) is now shown in terms of numbers A to F and Starter 173 has been split into 173A (CT: changes in taxation of capital gains) and B (minor changes to taxation of capital gains).

**Position Report**

4. The following table shows the latest state of play:

	<u>Total</u>	<u>Included</u>	<u>Included provisionally</u>	<u>Dropped</u>	<u>No final decision yet to include in Bill/under active consideration</u>
Inland Revenue	98	35	14	33	16
Customs & Excise	31	17	1	12	1
HMT & Transport	13	0	3	4	6

A further breakdown of those which are only provisionally included or still under consideration is shown in the attached Annex A.

**Estimated size of the Bill**

5. Last year's published Finance Bill was 200 pages, equivalent to 150 pages in the new A4 format. Our best estimate of the likely size of this year's Bill is currently 142 pages. (But at this stage last year we underestimated the eventual length of the Bill by 25 per cent.) Of these, around 32 pages are in respect of Customs' measures and 110 pages are for Inland Revenue Starters.

**Drafting of legislation**

6. Progress is much improved on last year's performance. Apart from the two Starters for which final decisions have yet to be taken and the one (Starter 9) which does not require Finance Bill space, Customs have only 6 which have not been sent to Parliamentary Counsel. These are all expected to be sent in the next 10 days. Inland Revenue have sent more than 80 per cent of all their Starters which have either full or provisional approval. Currently there seem to be no particular difficulties though Parliamentary Counsel would, of course, welcome any possible expedition.

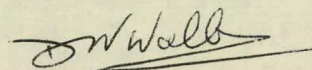


Revenue/cost estimates

7. The revenue estimates in the attached forms are not always directly comparable with those presented to Overview. The attached effects are measured from an unindexed base.

Future updates

8. Now that decisions have been taken on the majority of Starters, it would seem more important for future circulation of the Starters List to concentrate on the summary position including an analysis of where decisions are still needed and progress on drafting. Consequently, subject to your views, we would intend to discontinue the updating of the detailed Starter forms. This saving in effort will allow us to provide a more regular and relevant flow of information to Ministers and others.



D N WALTERS



## STATE OF PLAY

Customs

Final decisions reached on all but two Starters:

- |  |   |
|--|---|
| 1: Excise Duty Rates   | provisionally included but final decisions on rates still to be made  |
| 17: VAT Tribunals: appointment of Chairmen to hear "reasonable excuse" appeals | Customs still awaiting a submission from Lord Chancellor's Department |

Inland Revenue

The outstanding issues can be grouped under "provisionally included" and "under consideration":

provisionally included

- |  |   |
|--|---|
| 101: Income tax - allowances thresholds and rates                    | final decision at Overview  |
| 102: car and car fuel benefit scale charges                          | final decision on fuel scales required; subject to fuel price nearer Budget day |
| 108: small companies rate of CT                                      | Inland Revenue submission expected in next two weeks                            |
| 112: tax regime for personal pensions                                | subject to results of consultation exercise                                     |
| 118: Keith Committee: PAYE and sub contractors                       | subject to results of consultation exercise                                     |
| 120: Pay and File  | subject to results of consultation exercise                                     |
| 122: exemption limits for trade union provident benefit              | subject to space  |
| 127: dual resident companies, double deduction for interest payments | subject to results of consultation exercise                                     |
| 129: relaxation of offshore oil tax regime                           | Mr Cassell to advise  |
| 158: double taxation relief: banks: foreign withholding taxes        | final decision in context of the overall impact of Budget changes on banks      |
| 160: North Sea: ACT and ring fence profits                           | final decision nearer Budget in light of overall shape                          |



## BUDGET SECRET

164: amendment to S58 FA 1969	subject to space
173A: CT: changes in taxation of capital gains	subject to analysis of impact of Budget on company sector
176: interest payments between companies	subject to Inland Revenue submission on length of legislation

### Under consideration

104: Inheritance tax: rates and thresholds	linked to Starter 165; options under review following Overview on 20 January
109: Mortgage Interest Relief Limit for 1987-88	linked to 172
123: Business Expansion Scheme	submission to Ministers on 30 January
135: Pensions: rationalisation of current law and practice	submission from Inland Revenue in next two weeks
165: Inheritance tax: business relief	linked to Starter 104; awaiting further Inland Revenue submission
170: tax relief for Employee Buy-out	Inland Revenue submission of 29 January
172: MIR: higher rate relief	linked to 109
173B: Minor changes to taxation of capital gains	Further submission from Inland Revenue shortly.
177: IHT: interest in possession trusts	Revenue submission received: Financial Secretary to minute Chancellor shortly

In addition to the above, there are various Stamp Duty Starters (136, 137D, F and G, 138 B and F, and 141), on which final decisions have not yet been reached. These are to be covered by an Inland Revenue submission later this week.

### Transport and Treasury

Of the Treasury Starters only 412 (tax regime for Friendly Societies) remains in the under consideration group. The Economic Secretary will be holding a meeting with officials in the near future. Inland Revenue are now the lead Department for this Starter.

Of the 10 Transport Starters, 5 remain under consideration. Numbers 404, 405 and 406 (dealing with back duty) are linked and Department of Transport await (and are pressing for) Home Office advice on the preferred option. Starters 408 (dishonoured cheques) and 410 (change to the trade licensing arrangements) are both still being considered by Department of Transport. On the former, Mr Spicer will write if he wishes to proceed while on the latter legal advice on the need to include the measure is being taken. Inclusion of the 3 provisionally agreed Starters (402, 403 and 407) is subject to space.



# BUDGET-SECRET

21.1.87

## CUSTOMS AND EXCISE

### BUDGET STARTERS SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION Length Drafted	REVENUE COST (-)/ YIELD (+) Over £5m	STAFF EFFECT Over +5	OTHER COMMENTS
1	Excise duties rates	I*	18/12/86 8/1/87 15/1/87		2 Pages plus 12 pages of schedule	+£530m in 1987/88 +£580m in 1988/89	NIL	
2	Insurance Premium Tax	D	22/08/86 12/12/86		15 Pages (Provis- ional)	+£100m in 1987/88 +£300m in 1988/89	+20 provis ional	
3	Customs project Five.	D	19/9/86 29/10/86 5/11/86 15/12/86 8/1/87 20/1/87	18/11/86	Not Known	+20m in 1987/88 +£450m in 1988/89		
4	VAT: tour operators margins	I	5/12/85 29/10/86		1 Page	Nil in 1987-88 +£25m in 1988-89	NIL	EC have been told that legislation will be introduced in 1987
5	Excise: duty differential for unleaded petrol	I	28/10/86 18/11/86		½ Page	Neg cost	NIL	Revenue cost might reach £5m in 1989-90
6	VAT: tax avoidance	I	25/07/86 30/10/86 18/11/86 24/11/86 11/12/86 9/1/87		2 Pages	+£300m in 1987/88 +£400m in 1988/89	+5 (Provis- ional)	
7	VAT: cash accounting and annual accounting	I	22/08/86 23/1/87		7 Pages	Cash -£100m in 1987-88 -£10m in 1988-89 Annual- Nil	NIL	

\* Provisional

I = Included, UC = Under consideration, D = Dropped



# BUDGET-SECRET

21.1.87

## CUSTOMS AND EXCISE

### BUDGET STARTERS SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
8	VAT: relaxation of period in which to notify and be registered for VAT; plus minor amendments to VAT Act 1983, Schedule 1	I	22/08/86 28/11/86 23/1/87		Up to 1 Page		-£5m to -£25m in 1987/88 -£10m to -£40m in 1988/89	NIL	
9	VAT: revalorisation of registration and deregistration limits	I	22/1/87		SI		Neg cost	NIL	SI treatment assumes no increase in real terms
10	Excise: Bingo duty - changes in Exemption Rules	D	14/11/86	3/12/86	¼ page of schedule		Neg cost	NIL	
11	Excise: Abolition of on-course betting duty	I	14/11/86		About ½ page		-£20m in 1987/88 -£20m in 1988/89	-8	
12	VAT: group treatment	D	24/11/86	3/12/86	Up to half a page		Neg yield	NIL	
13	VAT: motoring expenses	D	27/1/87		5-10 lines		NIL	NIL	
14	VAT: blocking of loophole on imported services	I	13/10/86		10 lines	Complete	Neg yield in 1987/88 +£5M in 1988/89	NIL	
15	VAT: Powers to appropriate receipts between tax and penalties etc	D			About 1 page		Neg yield	NIL	Measure would avoid need for additional staff

I = Included, UC = Under consideration, D = Dropped



# BUDGET-SECRET

21.1.87

**CUSTOMS AND EXCISE**

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE COST (-)/ YIELD (+) Over £5m	STAFF EFFECT Over <u>+5</u>	OTHER COMMENTS
					Length	Drafted			
16	VAT: tax on supply to be liability of person completing the tax invoice	D	9/1/87		5 Lines		+£5m	NIL	Loss of revenue likely to increase if loophole becomes more widely exploited
17	VAT tribunals: appointment of chairmen to hear 'reasonable excuse' appeals	UC			6-8 Lines		NIL	NIL	Some possible cost savings
18	VAT: Registration of overseas traders	D	24/11/86		2-3 Lines		Neg yield	NIL	
19	VAT repayment of import VAT to community traders	I	8/12/86		12 Lines		Neg cost	NIL	
20	Excise: restructuring of the wine and made wine duties	I	17/6/86 6/11/86 2/12/86 8/1/87		1-2 Pages			NIL	Revenue cost/yield depends on options adopted.
21	Excise: Relief from duty of goods for testing	D		3/12/86	6 lines		NIL	NIL	
22	Excise: Definition of sparkling/made wines	I(a)			5 lines		NIL	NIL	(a) Included subject to action in this area from starter 20.
23	Excise: Oil Duties Reliefs	D		3/12/86	1 Page		NIL	NIL	
24	Excise: marine diesel oil used in pleasure craft	D	12/12/86		1 Page		+£5m to +£15m in 1987/88 +£10m to +£30m in 1988/89	+10	Revenue yield is particularly uncertain

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# BUDGET-SECRET

21.1.87

CUSTOMS AND EXCISE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
25	Excise: abolition of match and mechanical lighter duties	D	19/11/86 1/12/86		10 Lines		-£20m in 1987-88 -£20m in 1988-89	-10	Chancellor also asked for consideration of abolition of just one or other of the two duties (cost £10m)
26	Excise: gaming machine licence duty: change of arrangements for collection	I	14/11/86		$\frac{1}{2}$ - 1 page		Neg cost	-6	
27	Excise: gaming machine licence duty - provision of spare 3rd machines without a licence	I	14/11/86	3/12/86	Up to $\frac{1}{2}$ page		Nil	Nil	
28	Customs: access to traders' records	I	20/11/86	3/12/86	$\frac{3}{4}$ to 1 page		Nil	minor savings	
29	Customs: control of CAP Goods	I	21/10/86		4-5 lines		Nil	Neg	
30	Customs: search of premises and vehicles in customs controlled areas	I	20/11/86	3/12/86	1 page		Neg yield	Nil	
31	Excise: pool betting duty change of duty structure	I	14/11/86		$\frac{1}{2}$ page		Nil	Nil	

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# BUDGET-SECRET

21.1.87

LAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION Length    Drafted	REVENUE	STAFF	OTHER COMMENTS
						COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
101	Income tax: allowances, thresholds and rates	I*	5/12/86		Two-thirds of a page			
102	Uprating of income tax car and car fuel benefit scale charges	I*	10/10/86		Changes made by SI	cars 1988/89+£30m fuel 1988/89-£20m	NIL	
103	Income tax relief for profit-related pay	I	21/11/86		10-20 pages		Up to +100	
104	Inheritance tax: rates and thresholds	UC	1/12/86 10/12/86		up to ½ page			
105	Capital gains tax: rate	D	17/10/86		Few lines		Neg	)Replaced by
106	Capital gains tax: annual exempt amount	D	17/10/86		Few lines			)starter 173
107	CT rate for financial year 1987	I			2 lines	Yield/cost of 1 per cent change: 87/88 -£10m 88/89 -£280 Full Year -£440m	NIL	
108	Small companies rate of CT for financial year 1987	I*			4-9 lines	Yield/Cost of 1 per cent change: 1987-88 Neg 1988-89-£20m Full Year£-50m		Nil

\* Provisional

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LAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
109	Mortgage Interest Relief Limit for 1987-88	UC	8/10/86		Few lines to fix limit, whether changed or not		Increase to £35,000 1987/88 £165m 1988/89 £235m	Nil -7	
110	Tax treatment of payments of invalid care allowance to married women	I	July 1986		A few lines		Nil	Nil	
111	Taxation of income support paid to the unemployed and to strikers	I	18/12/86		2-3 pages		Nil	Nil	
112	Tax regime for personal pensions	I*	11/11/86 14/11/86		5-6pages		-£25m (1988-89)	+50 (1988-89)	Consultative document went out 27 November
113	PRT valuation rule	I	17/10/86		1-2 pages		1987/88 +£m20 1988/89 +£20m	Nil	
114	Manipulation of Brent Market	I	17/10/86		Depends on nature of solution		1987-88 up to +£80m 1988-89 up to +£50m	Nil	

\* Provisional

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INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
115	Approved employee share schemes - the material interest test of employees' eligibility to participate	I	30/10/86 10/11/86		1 page		Neg	Nil	
116	Approved employee Share option schemes roll-over of options on a take-over	I	23/1/87		Upto 1½ pages		1987-88: Neg 1988-89: Neg	Neg	
117	Employee share acquisitions - closure of loophole in tax charging provisions	D			2 pages		Neg	Nil	
118	Keith Committee PAYE and subcontractors	I*	14/10/86		1 page		1987-88 +£5m 1988-89 -£45m	Nil	118 and 120: consultative document issued on 12 December.
119	Keith: income tax returns: miscellaneous items	D	14/10/86		4 pages		Nil	Nil	Long term: appreciable revenue yield at some staff cost.
120	Pay and file: reform of corporation tax return and payment procedures.	I*	14/10/86		14 pages		Nil	Apr 88 +£2m Apr 89 +£4m	Long term staff effect is - 132

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INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over <u>+5</u>	
121	Capital gains tax: relief on disincorporation	D	10/10/86		Over 20 pages		Nil	Neg	
122	Exemption limits for Trade Union Provident benefits	I*	10/11/86		10 lines	Complete	Neg	Nil	The FST has advised Mr Norman Willis that the limits will be reviewed.
123	Business Expansion Scheme	UC	27/11/86		Contingent upon decisions				Commitments to other Ministers (particularly Lord Young) to consider position of hotels and sports facilities.
124	Relief for pre-trading R & D Expenditure	D	19/12/86		5 pages		-£10m	Neg	Relief on these lines recommended in report of Official Advisory Committee on applied R & D plus further £10-15m if oil companies included.
125	Amendment of income tax treatment of woodlands	D	21/10/86		Up to 2 pages		Perhaps + £10m		
126	Offshore funds	I	13/11/86		up to ½ page		Neg	Neg	

\* Provisional

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## INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
127	Dual resident companies double deduction for interest payments.	I*	22/10/86		4 pages		1987-88 Neg 1988-89 Up to +£125m 1989-90 upto +£m200	Neg	Yield subject to any transitional provisions.
128	Rectifying adverse decision in ICI case	D	12/12/86		Up to 1 page		Nil	Nil	
129	Relaxation of offshore oil tax regime.	I*	17/10/86	22/10/86	10 pages	7 pages	1987-88 -£5m 1988-89 -£10m	Neg	
130	Relief for payroll giving - increase £100 limit	I	12/11/86		Few lines	Complete	Neg cost	Nil	
131	Tax-neutral maintenance payments	D	11/12/86		Not yet known		+ £80m to + £130m	Possibly -200	Consultative exercise needed before legislation
132	Tax appeals - General Commissioners for Northern Ireland <i>* Provisional</i>	D	13/11/86		Not exceeding 1-2 pages		Nil	Nil	Consultative exercise needed

I = Included, UC = Under consideration, D = Dropped



INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE COST (-)/ YIELD (+) Over £5m	STAFF EFFECT Over +5	OTHER COMMENTS
					Length	Drafted			
133	Tax appeals - place of hearing by General Commissioners	D	3/12/86		1 page		Nil	+15 to +20 if changes not made	Consultation needed
134	Tax information requirements - mandated dividends	D	19/11/86		Probably short		Nil		
135	Pensions: rationalisation of current law and practice	UC	22/10/86 21/11/86 18/12/86	13/11/86 (on AVCs)	1-2 pages		1988-89 -£40m		
136	Stamp duty £30,000 threshold	UC	21/11/86		1/3 page		Revenue costs: £30,000- Nil £35,000- £115m £40,000- £200m £45,000- £265m	[+20]  [+10]  Nil  [-10]	

I = Included, UC = Under consideration, D = Dropped



BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
137A	Stamp duty reserve tax: income tax exemption for interest on repayments	I	4/12/86		6 lines	Complete	Nil	Nil	
137B	Stamp duty reserve tax: Pro rata exemption	I	4/12/86		¼ page		Nil	Nil	
137C	Stamp Duty reserve tax: agency broker deals	I	4/12/86		Few Lines		Nil	Nil	
137D	Stamp Duty reserve tax: exemption for issuing houses	UC	4/12/86		½ page		Nil	Nil	
137E	Stamp duty: reserve tax: exemption for sub-underwriters	D	4/12/86		½ pages		Nil	Nil	



BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
137F	Stamp duty reserve tax: removal of double change on offers for sale	UC	4/12/86		¼ Page		Nil	Nil	
137G	Stamp Duty reserve tax: relief for Japanese transfers	UC	4/12/86		Few lines		Nil	Nil	
137H	Stamp Duty reserve tax: exemption for aborted agreements	D	4/12/86		¼ page		Nil	Nil	
137I	Stamp Duty reserve tax: exemption for charities	I	4/12/86		½ page	Complete	Nil	Nil	
137J	Stamp duty: reserve tax: clearance system charge modification	I	4/12/86		Few Lines		Nil	Nil	



# BUDGET-SECRET

21.1.87

## BUDGET STARTERS SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
137K	Stamp duty reserve tax: charge on foreign companies RLA's	D	4/12/8		Few Lines		Nil	Nil	
137L	Stamp Duty reserve tax: payment date	I	4/12/86		½ page		Nil	Nil	



BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
138A	Stamp duty: Financial Services Act consequential amendments - contract notes	I	15/12/86		Few lines		Nil	Nil	
138B	Stamp duty: Financial Services Act consequentials- Off Market dealers	UC	15/12/86	½ page	Neg	Nil			
138C	Stamp duty: Unit trust definition	I	22/10/86	½ page	Nil	Nil			
138D	Stamp duty: Unit Trusts: Arbutnct Principle	D		Few Lines	N/K	Nil			
138E	Stamp duty/SDRT Definition of Stock exchange	D	19/12/86			Nil	Nil		
138F	Stamp Duty/ SDRT: relief for market makers in traded options	UC				Neg	Nil		

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BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
139	Stamp duty: PEPS exemption	D			1/3 page				
140	Stamp duty: Housing and Planning Bill	I	14/11/86		1/3 page	Complete	Nil	Nil	
141	Stamp duty: Channel Tunnel	UC	10/12/86		1/3 page			Nil	
142	Stamp duty: Gilt Warrants	I	10/12/86 16/12/86		Few lines		Nil	Nil	
143	Stamp duty: Building Societies Act 1986: Stamp duty consequentials	D	12/11/86		1 page			Nil	
144	Inheritance tax: exemption of personal pension schemes benefits	D			Under ½ page		Probably Neg	Nil	Amalgamated with Starter 112



# BUDGET-SECRET

21.1.87

INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
145	Capital gains tax: building societies	I	3/11/86		Few lines	Complete	Neg	Neg	Linked with starters number 157A
146	Capital gains tax: over the counter currency options and futures	I	13/10/86		3/4 page		Neg	Neg	
147	Capital gains tax: relief for venture capital companies	D	8/10/86		Up to 8 pages		Probably Neg	Neg	
148	Restrictions of revenue discretion: "May/Shall" in taxes acts	I	23/12/86		Depends on extent of changes		Probably Neg		
149	CT: payment dates	I	17/10/86 20/11/86		1-3 pages	1.1 (not yet complete)	1987/88 Nil 1988/89 +£80M or more	Up to +35	
150	Currency exchange differences	D	10/10/86		5-15 pages				

I = Included, UC = Under consideration, D = Dropped



INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
151	Capital allowances: adaptation of system in light of courts decision that allowances for companies not mandatory	D	13/11/86		1-2 pages		Nil	Neg	
152	Capital allowances: updating of provisions preventing double allowances	D	19/11/86		Half page		Neg	Nil	
153	Capital allowances: for dwelling houses let on assured tenancies: extension beyond 31 March 1987	I	1/12/86		Few lines		Neg	Neg	Ministers have agreed that the relief should be extended for a further 5 years.
154	Relief for costs of seconding an employee to an educational body	I	27/8/86		½ page	Complete	Neg	Neg	Proposal  announced on 26 November and to take effect from date of announcement

I = Included, UC = Under consideration, D = Dropped



INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

STARTER		STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE COST (-)/YIELD (+)	STAFF EFFECT	OTHER COMMENTS
No	Description				Length	Drafted	Over £5m	Over +5	
155A	Lloyds - assessing/ collection system	D	1/12/86		2-3 pages		Neg	April 89 -50	
155B	Lloyds-Re-insurance to close (RIC)	I	1/12/86		1-2		+£150m once Nil and for all outspread over a period from 1988/89 to ? 1990/91 +30 m thereafter		
156	Lloyds Special Reserve Fund	D	1/12/86		1-3 pages		a) Abolition of SRF (1987/88) -5 (by April 1988) + up to £5m (1988/89) -10 + £5m to £10m (by April 1989) b) Reform SRF: Nil if income limits unchanged £5m upwards if limits increased + up to 10		Abolition or reform would reduce compliance costs fo: Lloyds
157A	FSB consequentials unit trusts (Income tax)	I	22/10/86		Up to 3 pages	2 (not yet complete)	Neg	Neg	Linked with starter 145



INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION Length Drafted	REVENUE COST (-)/ YIELD (+) Over £5m	STAFF EFFECT Over +5	OTHER COMMENTS
157B	FSB consequentials definition of Stock Exchange	I			¼ page ¼ page (almost complete)	Neg	Neg	
158	Double taxation relief: Banks: Foreign withholding taxes	I*	19/11/86		1 page	1988-89 +£20m 1989-90 +£m55 1990-91 +£m60	Probably Nil	Yields are broad estimates subject to variation in LIBOR
159	PRT relief for research	I	10/10/86		3½ pages 3½ (not yet complete)	1987-88 Nil 1988-89 Nil	Nil	Costings are highly uncertain
160	North Sea Oil Companies' Act and ring fence profits (S.16 OTA 1975)	I*	10/10/86 and 7/11/86		2-3 pages	1987-88 -£20m -1988-89 -£20m	Nil	
161	Relaxation on restriction of uplift after payback (S.111 FA 1981)	D	6/11/86		1 page	Nil	Nil	Total revenue cost in the early 1990s could rise to around £100m
162	Minimum tax	D	14/11/86		10-20 pages depending on scheme chosen	Individuals possibly +£25m to £40m companies £300m		

\*Provisional



## INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
163	Pre-consolidation amendments	I	20/1/87		Around 12 pages		Nil	Nil	
164	Amendment to S58 FA 1969, to allow the Department of Employment to pass on to local authorities information supplied from the Inland Revenue employers index.	I *	21/10/86		6 lines		Nil	Nil	
165	Inheritance tax: Business relief	UC	8/10/86 22/1/87		Up to ½ page		At least -£20m in full year	Neg	
166	Enterprise Zones: restriction of industrial buildings	D	31/10/86		½ page			Neg	
167	Restriction of non-commercial farming losses	D	31/10/86		1-2 pages				
168	Further tax relief for landlords	D	5/11/86						

\* = Provisional

I = Included, UC = Under consideration, D = Dropped



# BUDGET-SECRET

21.1.87

## INLAND REVENUE

### BUDGET STARTERS SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
169	IHT: Heritage Maintenance Fund	I	12/12/86		up to 2 pages	Not quantifiable but could be substantial	Nil		
170	Tax relief for Employee "Buy-out"	UC							
171	MIR: Residence basis	D							
172	MIR: Higher Rate Relief	UC							
173 A	CT: changes in taxation of capital gains	I*	4/12/86		2/3 pages		1987/88 Nil 1988/89 +£50m.	neg	Full year +£90m.
173 B	Minor changes to taxation of capital gains	UC			depends on decisions		depends on decisions.	Neg	
174	Relaxation/abolition of limits on size of FA 1984 approved scheme share options	D	8/1/87		Up to ½ page		Neg	Nil	
175	Stamp Duty: Crown exemption	I	10/12/86		¼ page		Neg	Nil	



INLAND REVENUE

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
176	Interest payments between companies	I*			1 page		Neg		
177	IHT: Interest in possession trusts	UC			2 pages				
178	Double taxation agreements: exchange Of information	I	19/1/87		Few lines		Nil	Nil	
179	Oil allowances	I	19/1/87		1/2 Page		Neg	Nil	

↳ Provisional



## DEPARTMENT OF TRANSPORT

BUDGET STARTERS  
SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE	STAFF	OTHER COMMENTS
					Length	Drafted	COST (-)/ YIELD (+) Over £5m	EFFECT Over +5	
401	Power to seize trade plates	D	15/12/86		1 Page (2 to 4 clauses)		Neg	Neg	
402	New taxation class for recovery vehicles	I*	15/12/86	¼ page		Neg	Nil		
403	Clarification of and increase in penalties for vehicle licensing and registration offences	I*	15/12/86		few lines		Nil	Nil	
404	Double back duty	UC	15/12/86		5-6 lines		+£8.0m	Nil	Alternative to starters 405 and 406
405	Minimum back duty order	UC	15/12/86		1-2 lines		+£6.7m	Nil	Alternative to starters 404 and 406.
406	All back duty deemed to be due	UC	15/12/86		2-3 lines		+£6.0m	Nil	Alternative to starters 404 and 405
407	Dishonoured cheques: increase maximum penalty for failure to surrender excise licence	I*	15/12/86		2 Lines		Neg	-5	
408	Dishonoured cheques: provision for the Department to claim duty lost during the period the licence was held by the offender	UC	15/12/86	2 lines	Neg	-5			

\* Provisional

I = Included, UC = Under consideration, D = Dropped



# BUDGET-SECRET

21.1.87

HM TREASURY

## BUDGET STARTERS SUMMARY SHEET

No	STARTER Description	STATUS*	SUBMISSION	MEETING	LEGISLATION		REVENUE COST (-)/ YIELD (+) Over £5m	STAFF EFFECT Over +5	OTHER COMMENTS
					Length	Drafted			
409	Premium Bonds: Inheritability	D			5 lines		NIL		
410	Change to the trade licensing arrangements	UC	15/12/86		5-10 lines		NIL	NIL	
411	Transfer of broadcast receiving license fee collection responsibility to the BBC.	D						Neg	
412	Tax regime for friendly societies	UC					Neg	Nil	
413	VED refunds: provision for alternative procedure of rebates of duty	D			? ½ page				

\* Provisional

I = Included, UC = Under consideration, D = Dropped





PPS  
RP

FROM: N WILLIAMS  
DATE: 6 February 1987

MR WALTERS

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Sir Peter Middleton  
Mr Wilson  
Mr Cassell  
Miss Sinclair  
Miss Evans  
Mr Haigh  
Mr Romanski  
Mr MacKenzie  
Mr Cropper  
Mr Ross Goobey  
Mr Tyrie  
Mr Isaac IR  
Mr Painter IR  
Mr Beighton IR  
Mr Shaw IR  
PS/C&E  
Mr Wilmott C&E  
Mr Graham OPC

1987 FINANCE BILL STARTERS

1. The Financial Secretary was grateful for your minute of 4 February with the attached third series of amendments to the Starters List.

2. The Financial Secretary is content with your suggestion that from now on the updating of the detailed Starter Forms should be discontinued and that you should concentrate on the summary position including an analysis of where decisions are still needed and progress on drafting.

*Nigel Williams*

NIGEL WILLIAMS  
(Assistant Private Secretary)

APR 1987  
to  
WALTERS  
b/l





Inland Revenue

CONFIDENTIAL

Policy Division  
Somerset House

FROM: J H REED  
DATE: 11 FEBRUARY 1987

FINANCIAL SECRETARY

INTEREST PAYMENTS BETWEEN COMPANIES: FINANCE BILL STARTER 176

You asked us to consult Parliamentary Counsel and provide you with a firmer estimate of how much Finance Bill space this measure would require. His estimate is that it would require more than half a page but less than one page.

J H REED

---

cc PPS  
Chief Secretary  
Economic Secretary  
Minister of State  
Mr Wilson  
Mr Cassell  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham (OPC)

Chairman  
Mr Painter  
Mr McGivern  
Mr Lawrance  
Mr Pitts  
Mr Cleave  
Mr Whitear  
Mr Campbell  
Mr Bates  
Mr O'Connor  
Mr Reed  
Mr Carr  
PS/IR  
Mr Beighton





INLAND REVENUE  
MANAGEMENT DIVISION  
SOMERSET HOUSE

FROM: M H GLEDHILL  
DATE: 11 FEBRUARY 1987

- (1) MR P B ~~G~~ JONES <sup>g</sup> <sub>writer</sub>  
(2) FINANCIAL SECRETARY

FINANCE BILL STARTER NO 164

AMENDMENT TO SECTION 58 FINANCE ACT 1969 :  
DISCLOSURE OF INDIVIDUAL ESTABLISHMENT EMPLOYMENT  
DATA TO LOCAL AUTHORITIES

*will request if required.*  
1. You gave approval in principle to the inclusion of this item in the list of starters following consideration of a minute dated 21st October 1986. Drafting by Counsel is almost complete and you are now invited to give final clearance for the matter to go forward.

---

CC    **Chancellor of the Exchequer**  
Chief Secretary  
Minister of State  
Economic Secretary  
Sir Peter Middleton  
Sir Terence Burns  
Mr Bailey  
Mr Monk  
Mr Cropper  
Mr Monger  
Mr Graham

Chairman  
Mr Isaac  
Mr Painter  
Mr Rogers  
Mr Pollard  
Mr Jones  
Mr Corlett  
Mr Calder  
Mr Cherry  
Mr Cleave  
Mr Newcombe  
Mr Sullivan  
Mr Fitzpatrick  
Mr D Shaw

PSLR.



2. The measure would allow the Department of Employment to pass information, provided to them by the Inland Revenue from the Employer's Index, to local planning authorities and local education authority career services for use in formulating their employment policies. The details required, the names and addresses of employers and the number of employees in each PAYE scheme, can be passed to the Department of Employment under Section 58 Finance Act 1969 but at present that Department is prohibited from passing the information on.

3. The local authorities concerned, with the full support of the Department of Employment, have been pressing for the material to be made available to them for some years. They attach considerable importance to it, the provision of which would greatly assist in devising effective local employment policies. In its continued absence, they would be forced to conduct their own surveys, a duplication of effort which would cost them money and place a burden on the small businesses that they canvas.

4. The Authorities and the Department of Employment were very disappointed that the amendment to Section 58 fell at the last hurdle at the run-in to last year's Finance Bill, due to other priorities and lack of space.

5. The matter is non-controversial and of some significance to the effective planning of local employment policy. The drafted amendment will require, at a rough estimate, around one page in the Finance Bill, as it lists the categories of authority eligible to receive the information. However, it is hoped that lack of space will not on this occasion force this measure to be deferred for a second time in view of the importance attached to it by the Department of Employment and by the planning authorities themselves.

*M H Gledhill*

M H GLEDHILL





Handwritten initials or mark.

PARLIAMENTARY CLERK

FROM: J J HEYWOOD

DATE: 12 February 1987

cc PS/Chancellor  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Scholar  
Mr Walters

FINANCE BILL 1986 (SIC): GUIDANCE FOR OFFICIALS

Thank you for your minute dated 12 February 1986!

2. The Financial Secretary was very happy with the guidance you propose to send out.

JEREMY HEYWOOD  
Private Secretary





FROM: N WILLIAMS  
DATE: 12 February 1987

MR REED IR

cc Principal Private Secretary  
PS/Chief Secretary  
PS/Economic Secretary  
PS/Minister of State  
Mr Wilson  
Mr Cassell  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Graham OPC  
PS/IR

INTEREST PAYMENTS BETWEEN COMPANIES: FINANCE BILL STARTER 176

1. The Financial Secretary was grateful for your further minute of 11 February.
2. The Financial Secretary is now content that this Starter should be definitely included in this year's Finance Bill.

NIGEL WILLIAMS  
(Assistant Private Secretary)





MISS SINCLAIR

FROM: JILL RUTTER  
 DATE: 12 February 1987

cc:  
 PS/Chancellor  
 PS/Financial Secretary  
 PS/Economic Secretary  
 PS/Minister of State  
 Sir Peter Middleton  
 Mr Cassell  
 Mr Scholar  
 Miss Evans  
 Mr Haigh  
 Mr Romanski  
 Mr Cropper  
 Mr Ross Goobey  
 Mr Tyrie

**FINANCE BILL**

The Chief Secretary has noted recently some submissions from the Revenue on technical items for this year's Finance Bill.

2 The Chief Secretary would be grateful if you could provide him with a short overlook of the likely contents, length and number of clauses and schedules etc in this year's Finance Bill. There are obviously areas which are still for decision, but the Chief Secretary would like to have a feel of how the Bill is shaping up. He may wish to raise this at a forthcoming overview meeting.

3 I would be grateful if you could let me have such a note by, say, next Wednesday.

JILL RUTTER  
 Private Secretary

1987  
 6  
 SINCLAIR  
 142