

TREASURY

SECRET

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PO -CH /NL/0006
PART D

FOR DISPOSAL ADVICE SEE INSIDE COVER

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FILE BEGINS 11/5/87

ENDS 29/5/87


PO -CH /NL/0006

PART D
1987 FINANCE BILL

SECTION USE ONLY	REFER TO	DATE	REFER TO	DATE
	PA(29/5/87) PAR	26/10/93		

FROM: A ROSS GOOBEY
DATE: 11 MAY 1987

PWF

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Mr Cropper
Mr Tyrie

CLAUSE 20

You asked for a couple of suggested paragraphs.

2. "I must say I find the Opposition's obsession with the burden of taxation bizarre. A burden is defined in my dictionary as an oppressive duty. That is certainly a description of an income tax rate running from 35p to 98p in the pound. And you will note that what is a burden to a weak bearer of that weight will become much easier to bear if he himself is stronger. So it is with the taxpayer under this Government. Real earnings have risen, and real take-home pay has risen by over 20% for the average earner.
3. Income tax has fallen as a percentage of earnings for the vast majority of earners, leaving them able to decide for themselves what goods they wish to buy. That a more prosperous nation is spending more of its income on non-necessities is a fact to be welcomed, not complained of.
4. But most of all, what do the Labour Party and Liberal Party and Social Democrats hope to gain? I agree entirely with them that the burden of taxation is too high. Now we have government borrowing down to a satisfactory level from the dangerous levels we inherited, we can concentrate our efforts on reducing that burden. But can the Opposition parties hold out that prospect to the electorate? Fat chance. Today they will speak and vote again against the 2p reduction in income tax, but the implementation of all Labour's £34 billion pledges would mean a doubling of income tax, and, if we removed the "if", "buts" and "perhaps" from the Liberal/SDP policy documents, they could not be afforded on current taxation levels.

5. So I offer the House this assertion, which no other Party can: the next Conservative Government will continue to seek to reduce the burden of taxation, and to reduce the basic rate of income tax to not more than 25p. This Clause is strong evidence of our ability to achieve that aim in the next Parliament."

ARG

A ROSS GOOBEY

RP

CONFIDENTIAL

REFERENCE: RCA/BQ/17

FROM: K E BRADLEY
DATE: 11 MAY 1987

CHIEF SECRETARY

cc:Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Butler
Mr Wilson
Mr Anson
Mr Judd
Mr Gilmore
Mr Burgner
Mr Scholar
Mr Turnbull
Mr Mason
Mr Revolta
Miss Sinclair
Mr Bonney
Mr Waller
Mr Dyer
Mr Jenkins(T.Sol)
Mr Graham(Par.Counsel)

FEES AND CHARGES VIRES: FINANCE BILL

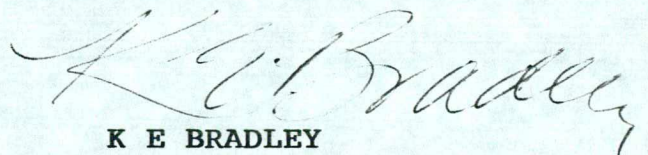
My minute of 6 May reported the position reached on the fees and charges clause for the Finance Bill. You wish to make an announcement by PQ on Wednesday, 13 May.

2. The original query raised by the Joint Committee on Statutory Instruments concerned a DTp service, and as a result DTp is taking the lead on instructing Parliamentary Counsel and coordinating departmental views. The issue is unusual in that it impacts on all departments levying fees and charges (in effect, all major

departments). I am advised by DTp that its internal deliberations are continuing and that it is not yet in a position to confirm that there will be no significant hiccups. In these circumstances DTp officials are uneasy at an announcement being made at this stage, a view shared by T.Sol.

3. As the scope of the clause has still not been clearly defined, and there is no firm date for this at present, I believe an announcement on 13 May would be premature. I recommend that the announcement be deferred until DTp, to all intents and purposes the lead department, has confirmed that it is satisfied that no material problems remain.

4. I will stress to DTp that in the event of a second Finance Bill being introduced post election the clause should be ready for inclusion on the face of the Bill.



K E BRADLEY

CA Division

CC. PPS, CST, EST, MST
 MR. Scholok TOM
 Miss. Sinclair /
 MR. Coppel
 MR. Ross Scobey
 MR. Harenton /
 MR. Cayley /
 PS /



Treasury Chambers, Parliament Street, SW1P 3AG

Michael Pickard Esq
 The Royal London Mutual Insurance
 Society Limited

Royal London House
 Middlesborough
 COLCHESTER
 Essex
 CO1 1BA

11 May 1987

David M. Pickard

Thank you for your letter of 5 May about Clause 62 of the Finance Bill.

We did in fact consider very carefully whether the new arrangements proposed for companies' capital gains should extend to capital gains earned for holders of life assurance policies. We concluded, however, that it would not be right to make such gains an exception to the general rule.

The impact of the change on life assurance companies will of course vary from company to company, depending on the pattern of investments and asset disposals, the level of tax deductions available, and so on. For instance, as you will know, with many companies a sizeable proportion of policyholders' funds is invested in assets outside the CGT net, and substantial management expenses can be set against chargeable gains. Allowing for all these factors, the effect of the change on the tax actually payable in any year on policyholders' gains should generally be marginal compared with the considerable value of life assurance funds.

You suggest that the change is retrospective. In one sense, any change - relieving or otherwise - in the tax regime for gains could be described as retrospective. But the event which triggers actual liability - the disposal of an asset - is prospective, not retrospective.

You mention also the possibility that the corporation tax rate might be increased. The reduction in the rate of the tax to 35% was one of the central objectives in the 1984 reforms and we have of course given reassurance that the rate will stay at 35% for 1987/88.

I have received a number of representations on this issue and have discussed it with the Association of British Insurers. There will, of course, be an opportunity for the Clause to be fully debated before it becomes law. Meanwhile I shall study carefully the views which you and others have expressed.

Yours sincerely
Norman Lamont

NORMAN LAMONT

SECRET

RD

Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY
6609
Telephone Direct line 01 210
Switchboard 01 210

Miss J Rutter
PS/Chief Secretary to the Treasury
H M Treasury
Parliament Street
SW1

CHIEF SECRETARY	
REC.	11 MAY 1987
APPROV.	Mr Scholar
TO	CX FST MST EST
	Miss Sinclair
	Mr Dyer
	Mr Cropper Mr Tyne

11 May 1987

(Second letter)

Jan Sill,

REPORT STAGE AMENDMENTS

*Mr Ron Goobey
PS/IR PS/C&E.*

I have already sent you a copy of the two Government amendments required for Report. Before you run off 100 copies, we ought to get the Chancellor's name on the top. That explains the enclosure, which will give you something that can be copied direct.

I have spoken with the House authorities and the simplest thing will be if you send the 100 copies to me and I will make sure that they get to the Principal Clerk of Public Bills. I have advised him that the Opposition are going to want an amendment to leave out clause 20. In accordance with the normal practice (ie. relating to Opposition and back bench amendments) all Mr Gould will have to do is go into the Public Bill Office: they will write out the proper amendment and produce as many copies as are necessary - so there is no need for the Treasury to do anything on this front.

A copy of this letter goes to Murdo.

Jan Sill
[Signature]

PETER GRAHAM

SECRET

CONSIDERATION OF BILL

FINANCE BILL, AS AMENDED

Mr Chancellor of the Exchequer

Page 23, line 20, leave out clause 34.

Page 124, line 10, leave out Schedule 5.

RD

FROM: MISS C E C SINCLAIR
DATE: 11 May 1987

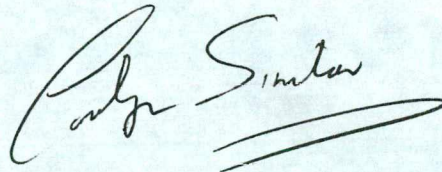
CHIEF SECRETARY

cc **Principal Private Secretary**
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Scholar
Mr Culpin
Mr Dyer
Mr Romanski
Mr Walters

Mr Jenkins
- Parly Counsel

FINANCE BILL: STATEMENT BY LEADER OF THE HOUSE

I attach a draft statement which the Leader of the House could make today about the Finance Bill, following the announcement of the election. I also attach some notes for supplementaries. Both have been agreed with Parliamentary Counsel.



CAROLYN SINCLAIR

FINANCE BILL

STATEMENT BY LEADER OF THE HOUSE

I can inform the House that the intention is to bring the Finance Bill back to the floor of the House tomorrow to complete all its remaining stages. The appropriate motions are being tabled today. The content of the shortened Bill is being discussed via the usual channels.

Supplementaries

Q Are any new clauses being tabled by the Government today?

A No.

Q Are any Government amendments proposed to clauses in the shortened Bill?

A The selection of amendments is a matter for the Chair. But I can inform the House that it is not the Government's intention to table any substantial new amendments, over and above those already tabled. Some formal amendments will be necessary to reflect the shortening of the Bill.

Q What will happen to those clauses left out of a shortened Bill?

A I am sure my Rt Hon Friend the Chancellor of the Exchequer will be making the Government's intentions clear.

Q What about the income tax cuts [other measures] proposed in the Finance Bill?

A As I have said, the content of a shortened Bill is under discussion via the usual channels.

Q Is there still a chance for Hon Members to table amendments? [NB not possible to table new clauses at Report Stage without notice.]

A Yes. But selection is a matter for the House Authorities.

SECRET



FROM: JILL RUTTER
DATE: 11 MAY 1987

1. Alex
2. G.
3. PUP

PRINCIPAL PRIVATE SECRETARY

cc: PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Haig
Miss Goodman
Mr Dyer
Mr Walters
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Romanski
PS/Inland Revenue
Miss Strong IR
PS/Customs & Excise
Mr Willmott C & E
Mr Graham Parly Counsel
Mr Neubert MP
Mr MacLean Chief Whip's Office

Ch
I have annotated
flagged list from Friday
to show what's in & what's
out.

Phoned
through

AA
OK

I attach a note of the clauses which it has been agreed should be included in the shortened Finance Bill.

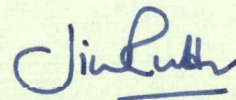
2. The Chief Secretary would be grateful if all Ministers were prepared to talk to the clauses which they would have taken through the Committee tomorrow.

3. The procedure is as set out in Mr Dyer's minute. There will be a substantive debate on Opposition motion on income tax. There will also be a Government motion to delete clause 34 at Report. The Chief Secretary considered the option of giving the motion to Sir Brandon Rhys Williams, but thinks it is better that the Government moves that motion. — and I passed on your views on this

SECRET

4. The Chief Secretary will handle the income tax debate and will then speak at Third Reading.

5. The Finance Bill remaining stages will be first business tomorrow.

A handwritten signature in blue ink, appearing to read "Jill Rutter". The signature is written in a cursive style with a horizontal line under the name.

JILL RUTTER

CLAUSES

1-19

20

21-23

24-29

30-32

33

35-36

37

39

41-44

45-46

54

55-56

67

138-146

147

149-151

153-159

160-164 (As amended)

CONFIDENTIAL

FROM: B O DYER
DATE: 11 May 1987

01-270 4520

PS/CHIEF SECRETARY

cc PPS
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Scholar
Miss Sinclair
Mr Romanski
Mr Walters
Mr Savage**PROCEDURE ON THE SHORTENED FINANCE BILL**

Further to my minute earlier today, I understand that the Opposition has now agreed the content of the shortened Finance Bill; and that a Motion setting out the order in which the Clauses and Schedules are to be considered in COWH is being tabled tonight. Its purpose is to enable those provisions which are to be left out of the Bill to be dealt with at the end of Committee proceedings. This Motion - to be moved by a Treasury Minister - will be taken immediately after the Procedural Motion, and set the pattern for the COWH proceedings.

A handwritten signature in black ink, appearing to be 'B O Dyer'.

B O DYER

CONFIDENTIAL



FROM: B O DYER
DATE: 11 May 1987

1 Alex
2 Tony
3 PUP

01-270 4520

PS/CHIEF SECRETARY

cc PPS
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Scholar
Miss Sinclair
Mr Romanski
Mr Walters
Mr Savage

PROCEDURE ON THE SHORTENED FINANCE BILL

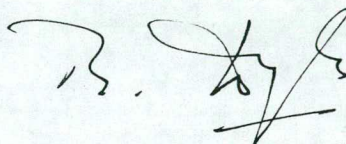
Assuming all stages of the Bill are to be taken on the Floor of the House the same day (Tuesday 12 May), the first item of Business will be the procedure motion: to discharge Standing Committee 'B', to allow remaining stages of the Bill to be taken at a single sitting and to permit the tabling of amendments without notice. In 1983 this motion was moved by the Lord Privy Seal.

2. Once this ^{enabling} motion is obtained, the House will proceed to a normal COWH, with a 'Clause Stand Part' question put for each Clause that has not already been considered (ie in Standing Committee or on the Floor). Any amendments to Clauses ^{and Schedules} to be retained will of course need to be moved before the "Clause Stand Part" question is put. For those Clauses it is intended to drop, a Treasury Minister should lead the chorus of 'Noes'.

3. When the Bill has finished in Committee, the Chairman will 'Report' the Bill to the House. It is at this stage that agreed 'manuscript amendments' will need to be moved, either by the Government* or the Opposition. For example, to leave out Clause 34 and Schedule 5 (already endorsed in Standing Committee) and, presumably, an amendment to leave out Clause 20, if the Opposition wish to debate Income Tax again. I assume Parliamentary Council will deposit a copy of each manuscript amendment to be moved at Report Stage with the Clerk of the Table, to duplicate and hand out at the appropriate time.

* or Sir B. Rhys-Williams

4. On completion of Report Stage, the House will proceed to Third Reading when the Chief Secretary may wish to say a few words commending the shortened Bill to the House.

A handwritten signature in black ink, appearing to read 'B. O. Dyer', with a stylized flourish at the end.

B O DYER
Parliamentary Clerk

RD



FROM: J J HEYWOOD
DATE: 11 May 1987

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Minister of State
PS/Economic Secretary
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss Sinclair o/r
Mr Haigh
Ms Goodman
Mr Dyer
Mr Romanski
Mr Walters
Mr Cropper
Mr Tyrie
Mr Ross Goobey
PS/IR
Mr Johns IR
Mr Graham OPC
Mr Neubert MP
Mr MacLean Chief Whip's
Office

SHORTENED FINANCE BILL: NEGOTIATIONS WITH MR GOULD

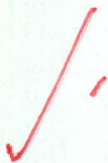
1. I can confirm that the Financial Secretary agrees with the advice provided by the Revenue, as reported in Mr Romanski's note of 8 May.

J.H.

JEREMY HEYWOOD
Private Secretary



Ch



Gould is profoundly
sorry for 'leak' on
Newsnight about
discussions w/ CST.
He says it was not
him but one of his
colleagues, contrary to
his words: He fully
understands the need for
these discussions to be
confidential.

AA

SECRET

1 Alex
CFROM: K M ROMANSKI
DATE: 8 MAY 1987

- MUS 8/5
1. MR SCHOLAR
 2. CHIEF SECRETARY

cc ✓ Chancellor of the Exchequer
Financial Secretary
Minister of State
Economic Secretary
Sir Peter Middleton
Mr Cassell
Miss Sinclair or
Mr Haigh
Ms Goodman
Mr Dyer
Mr Walters
Mr Cropper
Mr Tyrie
Mr Ross Goobey

PS/IR
Mr Johns - IR
PS/C&E
Mr Wilmott - C&E
Mr Graham - Parly Counsel
Mr Neubert MP
Mr MacLean - Chief Whip's
Office

SHORTENED FINANCE BILL: NEGOTIATIONS WITH MR GOULD

Miss Rutter's minute of today reported the outcome of your discussion with Mr Gould about the contents of a shortened Finance Bill and asked us:

- (a) to confirm that there were no problems with clauses provisionally shown as included; and
- (b) to advise on the inclusion of those clauses where no decisions were taken.

This minute has been drafted in consultation with the Inland Revenue, and takes account of the Economic Secretary's views as recorded in Mr Barnes' minute of 8 May. The Financial Secretary is out of the office today - he will speak to the Chief Secretary on Monday morning if he disagrees with any of the Inland Revenue advice.

2. The only difficulties which arise on the clauses shown as definitely to be included are:

- a. Clause 150 requires a brief amendment to close a potential loophole. It is already tabled and unless it is taken there is a risk of loss of tax.
- b. Clause 153 - if clause 155 (which is in the list of clauses to be considered further) were to be dropped, Schedule 16, which is associated with clause 153, would require a brief amendment to drop a link with clause 155.

Otherwise, there are no problem with the clauses shown as definitely included, and their associated schedules.

3. The position in the light of your criteria of need for consultation and amendments on the clauses shown as to be considered further is as follows:

- a. Clause 38 - No problems about inclusion
- b. Clause 40 - Miss Rutter's minute indicated that you do not wish to proceed with this clause.
- c. Clauses 41-44 - No problems about inclusion.
- d. Clauses 47-51 - No problems about inclusion.
- e. Clauses 52, 53 - Economic Secretary wishes to drop these clauses because they are controversial with the banks and he would wish to review the position; some amendments are anyway required to clause 52.
- f. Clauses 55, 56 - No problems about inclusion.
- g. Clause 57 - No problems about inclusion. This clause was in the original list for inclusion in a shortened Finance Bill.
- h. Clauses 59-60 - No problem about inclusion.
- i. Clauses 123-137 - Some amendment to these provisions will be required, but these are self-contained and would be new clauses anyway so they can easily be left over to a later bill. The Economic Secretary recommends inclusion of these clauses as they stand.
- j. Clauses 138-140; 142-146 - One minor amendment is required to Schedule 12 (associated with Clause 146); it has already been tabled. Although there are one or two other desirable amendments, these can be left over to a later Finance Bill. The Economic Secretary recommended inclusion of these clauses.

- k. Clause 155 - An amendment is desirable, but it can be left until later; inclusion of clause 155 avoids the need for a potential amendment to Schedule 16 (see para 2(b) above)
- l. Clause 156 - Two amendments are required now; they have already been tabled. It would be desirable to include this clause with all the other oil clauses (55-56 and 155-159)
- m. Clauses 158 and 159 - No problems about inclusion.

If you are content to proceed with the amendments already tabled, this would involve dropping only clauses 40, 52 and 53 from this list.

- 4. We are content with the list of clauses shown as to be dropped.
- 5. A full list of all the clauses which would be included in the shortened Finance Bill on this basis is at the Annex.
- 6. It is worth pointing out that if the Opposition are to secure a debate on the income tax clause, they will have to take positive steps to achieve this. At Report Stage there is no debate on Clause Stand Part and no debate at all unless there is an amendment tabled. No doubt the Table Office can advise them on possibilities: the obvious one is an amendment to leave out Clause 20. Alternatively they could no doubt debate income tax at Third Reading but this would not seem very satisfactory.
- 7. As Mr Dyer has stated in his minute of 8 May, if clause 34 is to be dropped from the Finance Bill, an amendment will be required at Report Stage to delete the clause, as it has already been passed at Committee Stage. The Opposition might be persuaded to move this amendment as well, as this might be less embarrassing for the Government.

-you have this



K M ROMANSKI

LIST OF CLAUSES FOR INCLUSION IN SHORTENED FINANCE BILL

(* indicates inclusion already provisionally agreed with Mr Gould)

* 1-19	67
*20- 33	123-137
*35, 36	138-140
*37	*141
38	142-146
*39	*147
41-44	*149-151
*45-46	*153, 154
47-51	155, 156
*54	*157
55-56	158, 159
57	*160-162
59-60	*163
	*164

SECRET

FROM: JILL RUTTER
DATE: 8 May 1987

MR SCHOLAR

CC:
PPS
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Miss Sinclair
Mr Walters
Mr Haigh
Ms Goodman
Mr Dyer
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Johns - IR
Mr Willmot - C & E

Mr Graham - Parly Counse
Mr Neubert - MP
Mr MacLean - Chief Whip
Office

SHORTENED FINANCE BILL: NEGOTIATIONS WITH MR GOULD

... I attach a note to the Chief Whip which records the outcome of the Chief Secretary's discussion last night with Mr Gould. As you can see, subject to the point on a debate on income tax, Mr Gould is being co-operative and will go along with an agreed procedure (subject of course to the views of his business managers).

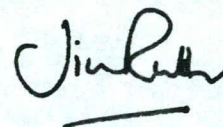
2 You will see that there are a list of clauses which are definitely in and a list of clauses which are definitely dropped - subject to resolution of the point on Clause 67.

3 The Chief Secretary would be grateful for your urgent confirmation by close tonight that there are no problems whatsoever with those clauses definitely included.

4 You will see a lengthy schedule of clauses where no decisions have yet been taken. The Chief Secretary is of the view that we

SECRET

should aim to include as many of these as possible in the Bill. By "as possible" he means meeting the requirements on outside consultation, and also ensuring that they will not require subsequent amendments. He would be grateful for your urgent advice, again by close tonight, on which of these clauses meet those criteria, taking account of the views of the responsible Ministers. I have asked the Private Secretaries to the FST and the EST to make sure their Ministers do this. In particular he notes that, in the light of your minute of yesterday, it should be possible to include all the stamp duty clauses in the pre-election Bill, and thus avoid the problem of postponing the operative date. I would be grateful, if you could work urgently with the Revenue and Parliamentary Counsel on these points. You should note however that the Chief Secretary has no intention of pressing Clause 40.



JILL RUTTER
Private Secretary

SECRET

FINANCE BILL 1987

This note sets out the position the Chief Secretary reached last night in discussion with Mr Gould on the procedures which might be adopted for a shortened Finance Bill in the event of an election being called on Monday. This agreement is provisional.

The Opposition's main concern was to have a debate and vote on Clause 20 (charge of income tax). Mr Gould indicated that he would want a decent debate, although it need not be long and he hoped that he might even be able to confine it to front bench speeches only.

For the rest, it was agreed that the following clauses (and associated schedules) should be included in a shortened Finance Bill: Clauses 1 to 33, Clauses 35 - 36. Clause 37, Clause 39, Clauses 45 and 46, Clause 54, Clause 141, Clause 147, Clause 149 - 151, Clause 153 - 154, Clause 157, Clauses 160 - 162, Clauses 163 and 164 - amended as necessary for the shortened Bill. The Chief Secretary wishes to add Clause 67 to the list.

It was agreed that the following clauses should be omitted from the shortened Bill: Clause 34, Clause 58, Clauses 61 - 66, Clause 68, Clause 69 - 106 Clause 107 - 122, Clause 148 and Clause 152.

It was agreed that the following sets of clauses should be considered further, looking in particular at whether there were technical issues which the House ought to debate: Clause 38, Clause 40, Clauses 41 - 44 Clause 47 - 53, Clauses 55 - 56, Clause 57, Clause 59 - 60, Clauses 123 - 137, Clauses 138 - 140, Clauses 142 - 146, Clause 155, Clause 156, Clause 158, Clause 159.

Definitely in

- 1-33
- 35-36
- 37
- 39
- 45+46
- 54
- 141
- 147
- 149
- 150+151
- 153+154
- 157
- 160-164

Status being clarified: 67 — salvaged.

Definitely out

- 34
- 58
- 61-66
- 68
- 69-106
- 107-122
- 148
- 152

To be considered further

- 38 — drop
- 40 — drop
- 41-44 — include
- 47-53 — drop
- 55-56 — } includ
- 57 — } drop
- 59-60 — }
- 123-137 — drop
- 138-140 — } include
- 142-146 — }
- 155 — } include
- 156 — }
- 158 — }
- 159 — }

S E C R E T



FROM: P D P BARNES
 DATE: 8 May 1987

PS/CHIEF SECRETARY

cc PPS
 PS/Financial Secretary
 PS/Minister of State
 Sir P Middleton
 Mr Cassell
 Mr Scholar
 Miss Sinclair
 Mr Walters
 Mr Haigh
 Miss Goodman
 Mr Dyer
 Mr Romanski
 Mr Cropper
 Mr Tyrie
 Mr Ross Goobey
 Mr Johns - IR
 Mr Wilmot - C&E
 Mr Graham - Parly Counsel
 Mr Neubert MP
 Mr Maclean - Chief Whip

SHORTENED FINANCE BILL: NEGOTIATIONS WITH MR GOULD

I have discussed with the Economic Secretary, after consultation with officials, which of his clauses might be included in a shortened Finance Bill.

2. The Economic Secretary would like clauses 52 and 53 to ^{be} dropped from a shortened Bill. Apart from these, and apart from clause 58 which it has already been agreed should be omitted from the shortened Bill, the Economic Secretary thinks it would be desirable for all his remaining clauses (ie 41-44, 123 to 137, 138 to 146, and 161) to be included in a shortened Finance Bill.

PB

P D P BARNES
 Private Secretary

PWP



FROM: P D P BARNES
DATE: 11 May 1987

MISS SINCLAIR

cc PPS 2
PS/Chief Secretary
PS/Financial Secretary
PS/Minister of State
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Walters
Mr Haigh
Ms Goodman
Mr Dyer
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Draper - IR
Mr Johns - IR

Mr Graham - Parly Counsel

Mr Neubert MP

Mr McClain - Chief Whip

SHORTENED FINANCE BILL: STAMP DUTY

We spoke. As I said, the Chief Secretary and Economic Secretary have discussed the amendment which has been tabled to schedule 12, page 143, line 18. They would be grateful if you would arrange with Parliamentary Counsel for this amendment to be dropped.

A handwritten signature in dark ink, appearing to be 'PDP' or similar initials.

P D P BARNES
Private Secretary

purp

FROM: MISS C E C SINCLAIR
DATE: 11 May 1987

CHIEF SECRETARY

cc Principal Private
Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Scholar
Mr Culpin
Mr Dyer
Mr Haigh
Mr Romanski
Mr Walters

Mr Johns - IR
Mr Wilmott - C&E
Mr Graham - Parly Counsel

SHORTENED FINANCE BILL: CWH AND THIRD READING

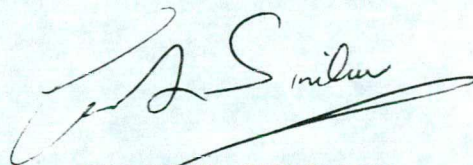
Your Private Secretary asked me for some material for use in the Debate on Income Tax tomorrow. This is attached at Annex A. It has been cleared with Mr Mace in the Revenue.

2. I was also asked to provide some material for use at Third Reading. You specifically mentioned the Written PQ which will announce the Government's intentions on those measures not included in the Finance Bill.

3. I attach at Annex B some paragraphs which run through the most important clauses proposed for inclusion in the shortened Bill. I have assumed that the agreement which you reached this afternoon with Mr Gould has not been changed.

4. You will see that I mention most, but not quite all, of the clauses proposed for inclusion. I thought it rather tedious for you to have to mention some of the minor technical changes, for example those in clauses 6-10. You may feel that Annex B already goes into too much detail. If so, you could simply leave out some of the less important references, sweeping everything up with a comment that you have not listed everything included in the Bill.

5. In the time available it has not been possible to clear Annex B with either of the Revenue Departments.

A handwritten signature in black ink, appearing to read 'Carolyn Sinclair', with a long, sweeping underline that extends to the right.

CAROLYN SINCLAIR

The income tax cuts proposed by the Government will be appearing in pay packets from 17 May onwards. A married man on average earnings will be £3.87 a week better off as a result. A married man on half average earnings will be £1.59 a week better off.

A reversal of the Government's proposals would introduce a considerable degree of chaos. Many employers with computerised payrolls will already have run their monthly pay for May. Many of those without computerised payrolls will have calculated pay in advance on the basis of a 27p basic rate. It would simply not be possible to ask such employers to reverse the income tax cuts at this stage. We would have to allow them to put the 27p basic rate into effect, and then claw it back. Employers would not know where they stood. And I leave it to Honourable Members to imagine how those benefitting from the proposed income tax cuts would feel as they saw their pay packets going up and down like a see saw.

We have thought it right to retain those clauses in the Finance Bill which confirm measures already in effect; or where a change at this stage would give rise to practical problems. Other measures have been included because of their significance, and because they do not require extensive debate.

Clauses 1-5 enact the excise duty changes.

Clauses 11 and 14 give effect to the VAT package which will be of particular help to small businesses. These measures have been the subject of wide consultation, and expectations have been aroused for some considerable time. It would be wrong not to act as soon as possible to put these important changes into effect.

Clauses 12, 13, 15, 17 and 18 block a significant VAT loophole to which the Member for Sedgefield drew attention during consideration of the 1986 Finance Bill.

Clauses 20 and 23-29 give effect to the Government's income tax proposals. [As I have already pointed out], the increase personal allowances and reduced basic rate of 27p will be reflected in pay packets after 17 May. The special increase in relief for those aged 80 or over, and in relief for the blind, have also been included as a matter of priority.

Companies have told us how much they welcome the certainty of having the rate of corporation tax set in advance for the financial year. This is why we have included clause 21. Clause 22 gives effect to the 27p rate of corporation tax for small companies. Clause 37 will put all companies on a nine months' payment basis for Corporation Tax.

We have also thought it right to include clause 33, which gives effect to certain useful changes to the rules on tax relief for employee share schemes as they affect employees.

The Government attaches importance to the encouragement of training, and therefore proposes the inclusion, in clauses 35 and 36, of the new reliefs for employees seconded to educational bodies, and for training not specifically connected to an employee's present job.

Clauses 45 and 46 make useful improvements to the business expansion scheme and have therefore been included.

Clause 67 will increase the limit for retirement relief from CGT.

Clauses 138-146 are concerned with stamp duty and stamp duty reserve tax. Though almost wholly technical, these measures have been included because of the impossibility of back-dating stamp duty changes.

We saw no reason to leave out of this Bill the important reductions proposed for inheritance tax, as well as other useful measures which will help the Heritage. These are contained in clauses 147 and 149-151.

The Finance Bill contained a balanced package of measures affecting the oil industry. These were carefully designed to give oil companies and the offshore supply industry an opportunity to adjust to the oil price fall, and to help mitigate its effect on development and research. Certain of the measures are already in effect. We have therefore thought it right to include clauses 153-159 in this Finance Bill, as well as clauses 54 to 56.

Finally, we propose the inclusion of clause 160, which abolishes the Exchange Control Act. The Rt Hon Member for Sparkbrook has already made it clear that his party would not re-introduce exchange control.

A number of minor but useful measures have also been included, which I have not mentioned. There seemed no good reason to lose time by omitting these. But in other areas we have thought it right to drop proposals because the shortened timetable does not allow for proper consideration and debate.

The most important of these are the clauses on pensions and profit related pay. Other measures we are leaving on one side for now are those affecting dual resident companies, double taxation relief on interest on bank loans, and members of Lloyds syndicates.

We also think that the proposals for a new system of assessing and collecting Corporation Tax - Pay and File - need to be properly explained and debated: they are also being left on one side.

But I would not want the House or the outside world to be under any misapprehension. As my Rt Hon Friend the Chancellor made clear today, in a Written Answer, it is the Government's intention, if re-elected, to reintroduce all those provisions which have had to be left out of the shortened Finance Bill as early as possible in the next Parliament. For those measures which would have taken effect from Royal Assent to the original Bill, the operative date will be Royal Assent to the new legislation. In other cases it is intended to retain the operative date proposed in the original Bill.

I commend the Bill, on the basis proposed, to the House.

PWP.



C/

I understand that the
CST thinks you might
like to answer this PQ
yourself. Content? **Yes**

The timing is that the question
should be tabled today
and answered tomorrow.

CR 11/5



FROM: CATHY RYDING

DATE: 11 May 1987

MR SCHOLAR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Miss Sinclair
Mr Culpin
Miss Evans
Mr Haigh
Mr Romanski
Mr Dyer
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Johns - IR
Mr Wilmott - C&E
Mr Graham - Parly Counsel
Mr Neubert - MP

**FINANCE BILL: PQ ANNOUNCING INTENTIONS OF THOSE CLAUSES
NOT INCLUDED IN A SHORTENED BILL**

The Chancellor was grateful for your minute of 7 May and Mr Dyer's minute of 8 May (not copied to all)

2. The Chancellor is content with the revised draft question as in Mr Dyer's minute and the draft answer in ~~your~~ minute, except that he thinks the words in square brackets - "and to introduce the provisions relating to duty free stores for vessels and fees and charges" - should be deleted. He is also content with the rest of ~~your~~ suggestions, except that we must get all dropped clauses in the No.2 1987 Finance Bill, which he would hope could be rushed through by end-July.

3. On the final paragraph of Mr Dyer's minute - that perhaps the Opposition can be persuaded to table an amendment to remove Clause 34 from the Bill - the Chancellor has commented that the Chief Secretary should ask Mr Rhys-Williams to do this.

CR

CATHY RYDING

CONFIDENTIAL

FROM: B O DYER
DATE: 8 May 1987



01-270 4520

CHANCELLOR

cc PS/Chief Secretary
Mr Scholar

THE NEXT PARLIAMENTARY SESSION AND SHORTENED FINANCE BILL

You might find it helpful to have my 'expectation' as to the likely timetable of events for the first Session of the new Parliament, in the event of a General Election on 11 June.

- 17 - 23 June : Election of Speaker and Swearing in of Members
- 24 June : The Queen Opens Parliament
- 24 June - 1 July : Debates on the Address (Note : Ways and Means Resolutions to found a Finance Bill **cannot** be taken during this period)
- 1 July : Concluding day of the Debates on the Address (likely to be the 'Economic' day)
- 9 July : [Treasury First Order Questions]
- 31 July : Parliament rises for the Summer Recess
- 19 or 26 October : Parliament returns, and the Session continues until October 1988
- November : [Autumn Statement]
- December : [Debate on the Autumn Statement].

May I also take this opportunity to suggest a slight revision to the text of the Question (proposed in Mr Scholar's minute of 7 May) announcing intentions on those clauses not included in a shortened Finance Bill. As currently worded, the Table Office could rule the Question out of order; if the balance of Committee stage and the Remaining stages of the Bill are referred back to the Floor of the House. The following form

of words brings the Question into order, yet allows the Answer to remain unchanged or, if desired, its scope widened (ie it covers all eventualities):

"Q : To ask Mr Chancellor of the Exchequer, if he will make a statement on the Government's intentions in relation to the Finance Bill."

X
Finally, I note that, following discussion with Mr Gould, it was agreed that Clause 34 (Occupational Pension Schemes), among others, be omitted from the shortened Bill. Standing Committee has already agreed that this Clause (34) 'stand part' of the Bill; so I assume, at Report stage, an amendment will be moved to delete this Clause from the Bill. It could be a touch embarrassing for the Government to move such an amendment - perhaps the Opposition can be persuaded to initiate this?



B O DYER

FROM: M C SCHOLAR
DATE: 7 May 1987

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Miss Sinclair o/r
Mr Culpin
Miss Evans o/r
Mr Haigh
Mr Romanski
Mr Dyer
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Content with draft PQ
Content with arrangements
suggested by Michael
Scholar?

OK with
words in brackets
CR 7/5/87
with M-S's
suggested
w/o

Mr Johns - IR
Mr Wilmott - C&E
Mr Graham - Parly Counsel
Mr Neubert - MP

Must get
all dropped
the No 2
1987
FBI
hope
by
Mr.

FINANCE BILL: PQ ANNOUNCING INTENTIONS ON THOSE CLAUSES NOT INCLUDED IN A SHORTENED BILL

At your meeting on 30 April you said that you wanted to make it clear, by means of a written PQ and Answer, as soon as an election was announced that any provisions left out of a shortened pre-election Finance Bill would be reintroduced immediately after the election, with the same effective dates. I attach a draft Answer.

2. The intention would be to answer the PQ as soon as all the clauses in the shortened Bill had been passed in Committee. In the case that an election were announced on Monday 11 May, the answer could be given on Wednesday 13 May.

3. If a shortened Finance Bill included all the clauses agreed at your meeting, this would leave around a hundred clauses (about 110 pages) from the original Bill to be enacted. It could prove quite a tall order to complete this before the Summer Recess. In 1983 only 16 clauses and 2 Schedules were included in the post-election Bill. The Queen's Speech debate would probably

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not be completed until the end of June, so only a month would be left for all stages of the Bill if the Summer Recess started at the end of July.

4. One alternative would be to allow the Bill to continue after the Summer Recess. This was not possible in 1983 because the income tax changes had to be implemented before the Resolutions on which they were founded ran out. This would not be an obstacle this year if you secure the passage of the Clauses you propose before the election, including Clauses 153 and 154. (If the latter were dropped from a pre-election Bill it would be essential for them to be legislated before the Summer Recess.) But it would provide an unwelcome clash with work on the public expenditure Survey in the Autumn and with preparatory work for the 1988 Budget. A better option, if it does not look as if all the clauses can be secured before the Summer Recess, would be, as in 1983, to leave some over to the 1988 Finance Bill. We could if you wished work up detailed suggestions for which clauses should be included in the summer Bill and which left until 1988, depending on your views on the length of a summer Bill.

5. On the assumption that you will not wish to take detailed decisions on this now, we have drafted the Answer in such a way as to leave open the possibility that some clauses may be left over till 1988. But if you decide now to include all the remaining clauses in a post-election Bill we will amend the written Answer to make it say so.

6. The Answer makes no special reference to Stamp Duty, where the currently proposed operative date is 1 August. Provided the Stamp Duty clauses are included in an immediate post-election Bill and provided this receives Royal Assent in July, no special mention is needed. Because Stamp Duty changes cannot be retrospective, the original date could not be retained if a slower timetable were followed. This could be met in the Answer by adding as a penultimate sentence "Stamp Duty clauses due to come into effect on 1 August 1987 may require a later start date if it appears that the new legislation will not have received Royal Assent by that date". However we would assume that you would prefer not

to spell this out. We think the words "it is intended ..." in the last sentence of the draft reply cover the position.

7. We suggest that if PQs have been answered announcing the Government's intention to table new clauses to deal with Klondykers and fees and charges, this Answer should also specifically refer to the Government's intentions on those provisions, as there would otherwise be uncertainty as to the position. In practice, both clauses could probably be left over until the 1988 Finance Bill.

8. We would be grateful to know if you are content with the draft Answer. Unless you tell us otherwise, we will assume that you wish us to arrange for it to be answered as soon as the contents of a shortened Bill have been agreed.

9. On publicity, the standard instructions say that, once an election has been called, "statements which might refer to the future intentions of the Government should not ordinarily be handled by a department". In the present case this seems unduly restrictive, and means - if we follow the rules to the letter as, on balance, we think we should - that we cannot issue a press release through the Government machine with a statement of what the Conservatives would do about the Finance Bill if re-elected. However, we do not see any objection to publicising the Government's intentions by other means - indeed, it is desirable to make taxpayers and their advisers aware of them. The arranged PQ would itself be a public announcement. To ensure that it was publicised it would be possible to draw it to the newspapers' attention, using the political net.

10. We also think that it would be desirable, to minimise any uncertainty there may be, separately to issue a Press Notice as soon as the Finance Bill has passed its Commons stages, just setting out which clauses have been retained.

MCS

SECRET

ANNEX

Q: To ask the Chancellor of the Exchequer what are the Government's intentions on those provisions which had to be dropped from the Finance Bill.

A: The Government proposes to reintroduce all those provisions which have had to be left out of the shortened Finance Bill ~~and to introduce the provisions relating to duty free stores for vessels and fees and charges~~ as early as possible in the next Parliament. For those measures which would have taken effect from Royal Assent to the original Bill, the operative date will be Royal Assent to the new legislation. In other cases it is intended to retain the operative date proposed in the original Bill.

SECRET



FROM: JILL RUTTER

DATE: 1 May 1987

1 Alex ✓
2 Tony ✓
3 sup

PRINCIPAL PRIVATE SECRETARY

cc:
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Miss C Evans
Mr Walters
Mr Haigh
Ms Goodman
Mr Dyer
Mr Romanski
Mr Cropper
Mr Tyrie
Mr Ross Goobey

Mr Johns - IR
Mr Willmott- C & E

Mr Graham - Parly Counsel
Mr Neubert - MP
Mr Machean - Chief Whip's Office

FINANCE BILL: CLAUSES TO BE INCLUDED IN A SHORTENED BILL

The Chancellor held a meeting at 8.45am on 30 April to discuss the clauses to be included in a shortened Finance Bill. This note records the decisions at that meeting and the discussion on the procedure to be followed in the event of an election being announced.

2 The Chancellor said he would wish to announce at the earliest possible date following the announcement of an election that all the clauses dropped from the shortened Bill would be brought back in their original form, with ^{the} same effective dates, as soon as possible after an election. He would do this by means of written answer. It was agreed that there should be a separate announcement as soon as possible of the Klondykers and Fees and Charges clauses by means of separate written answers. (Miss Sinclair to deal.)

3 The Chancellor noted that the Government was in a stronger

SECRET

position morally where clauses already been passed by Committee of the Whole House or Standing Committee, although since all would require a Report Stage the practical effect was limited.

Clauses 1 - 5 - The Minister of State confirmed that there was nothing contentious here. These should be retained.

Clauses 6 - 10 - the Minister of State confirmed that there was nothing contentious. These should be retained.

Clauses 11 - 19 - the Economic Secretary noted that Clause 18 was consequential on Clause 12. It was noted that since Clause 12 had been introduced to meet a point raised by Mr Blair the Opposition could not object to it. The aim should be to include all these clauses in a pre-election Bill.

Clauses 20 - 23 - these had already been passed by Committee of the Whole House. All should be included in a pre-election Bill.

Clauses 24 - 29: - it was noted an amendment was needed to Clause 26; this was however already drafted. It was agreed that the Chief Secretary would include Clause 29 (Income Support etc) on his shopping list for negotiation with the Opposition, but if the Opposition pressed for its exclusion, the Chief Secretary could concede. All the other clauses should be retained.

Clauses 30 - 32 - it was agreed that Clause 32 was essential. There should be no problem in gaining agreement to Clauses 30 - 31.

Clauses 33 - 36 - on Clause 33 it was noted that amendments were required. Mr Graham saw attractions in dealing with the acquiring company problems in a post election Bill; this would be an easier procedure than amending an already amended provision at Report Stage. It was agreed that this procedure would be followed and that the Chief Secretary would seek

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Opposition agreement to the inclusion of Clause 33 as amended in CWH in a pre-election Bill, but again could concede if necessary. It was agreed to drop Clause 34 but to include Clauses 35 and 36.

Clause 37 - 40 - it was agreed to keep Clause 37. On the other clauses, it was noted that Clause 39 was a consequential of Clause 33, and therefore should be kept, if Clause 33 were retained. Clauses 38 and 40 should be dropped.

Clauses 41 - 44 - these should be dropped.

Clause 45 - it was noted that there had been representations to increase the limit. That would necessitate a simple amendment at Report Stage.

Clause 46 - this should be included.

Clauses 47 - 53 - these should be dropped.

Clauses 54 - 56 - the Financial Secretary noted that these should be considered with Clauses 153 - 159 which were the other elements in the oil package. He proposed the following package:

Clause 54 - keep.

Clause 55 - defer.

Clause 56 - defer.

Clause 153 - include.

Clause 154 - linked to Clause 153, therefore include.

Clause 155 - defer.

Clause 156 - there were drafting problems here - defer.

SECRET

Clause 157 - include.

Clause 158 - defer.

Clause 159 - defer.

4 The Chancellor wondered whether there might not be merit in leaving out the oil measures with the exception of **Clauses 153 and 154**; Mr Graham noted that there were problems with the interaction between the oil clauses and this could cause great complexities. It was therefore agreed that the Chief Secretary would either negotiate the FST's package as specified or the oil provisions in their entirety would be dropped from the shortened Bill.

Clause 57 - retain

Clause 58 - 60 - it was agreed that these should be dropped.

Clause 61 - 68 - it was agreed that these should be dropped with the exception of **Clause 67** (Retirement relief) ~~wich~~ the Chancellor saw as part of the Small Business package and wished to see retained. It was agreed that the Chief Secretary would attempt to negotiate this but drop it if there were any objection from the Opposition which stood in the way of agreement.

Clauses 69 - 106 - these would be dropped.

Clauses 107 - 122 - these would be dropped.

Clauses 123 - 137 - these would be dropped.

Clause 138 - 146 - Miss Sinclair said that the Revenue saw a case for including the Stamp Duty measures in a pre-election Bill, but there would be no practical problems provided the measures, ^{were in} ~~went to~~ a Summer Bill after an election. It was noted however that Clause 141 was a consequential of abolition

SECRET

of Exchange Control. It was agreed that Clause 141 would therefore be included in the pre-election Bill.

Clause 147 - 152 - Clause 147 would have been passed in Committee of the Whole house. It was noted that this could be dropped to get an agreed procedure. It was agreed that Clauses 150 and 151 should be included; they were unlikely to cause any problems with the Opposition.

Clause 153 - 159 - discussed above.

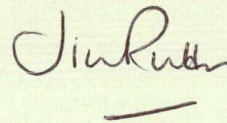
Clause 160 - 164 - the Chief Secretary would try to negotiate these as a package. He could however if pressed drop Clause 162.

The associated schedules would be taken with the clauses.

5 On procedures the Chief Secretary said that he had talked to the Chief Whip. In the event of an election being called on May 11 the Chief Secretary would negotiate with Mr Gould on that afternoon and evening. The Chief Whip would want to see the Finance Bill through its common stages by the end of Wednesday 13 May. Mr Graham said that he had suggested procedures covering two scenarios of agreement with the Opposition, or no agreement. In the latter case a guillotine motion would be needed. He was attracted to the option of debating the guillotine on 12 May while Standing Committee was proceeding. That would allow Standing Committee to dispose of the Bill after the guillotine had been passed by 7pm on the Tuesday and return it to the House in shortened form. It would remove the need to shorten the Bill in the House. The Report Stage amendments would be available on Monday, and could be tabled on the Tuesday. The Finance Bill could then be debated on the Wednesday in its shortened form. The Chief Secretary noted that he would be able to threaten Mr Gould with this procedure in the event that the Opposition were not prepared to agree. The Chancellor noted that given the Opposition's line on income tax it was unlikely that they

SECRET

would be prepared to accept an agreed procedure. In that event the Government would only concede the clauses where it believed there was merit in the deferral for purposes of outside consultation etc. This discussion was reflected in the decisions outlined above.

A handwritten signature in cursive script, appearing to read "Jill Rutter", with a horizontal line underneath.

JILL RUTTER
Private Secretary

SECRET

20

Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY

6609

Telephone Direct line 01 210

Switchboard 01 210

Miss J Rutter
PS/Chief Secretary to the Treasury
H M Treasury
Parliament Street
SW1

CHIEF SECRETARY	
REC	11 MAY 1987
	<i>Mr Scholaw</i>
	CX FST MST EST
	<i>Miss Sinclair</i>
	<i>Mr Romanski</i>
	<i>Mr Dyer</i>

11 May 1987

Jan Hill

SHORTENED FINANCE BILL

Mr Cropper Mr Tyrin
Mr Ross Coobey
PS/jr PS/C+E

We spoke on the telephone this morning and I have now received the copy of Romanski's minute of 8 May.

I enclose revised versions of documents A and B - on the assumption that we are going to proceed by agreement. Document A is shortened, on the basis that the intention is to take Committee and all remaining stages tomorrow. The revision of document B reflects the annex to Romanski's minute. Clearly there may be further changes here.

These documents are to hold the fort while I am semi-incommunicado during the early part of the afternoon.

We are also going to need a revised version of document "Z", that is to say, the amendments consequential on leaving out various clauses. Not surprisingly, the list of these amendments grows shorter as the number of clauses included in the Bill increases.

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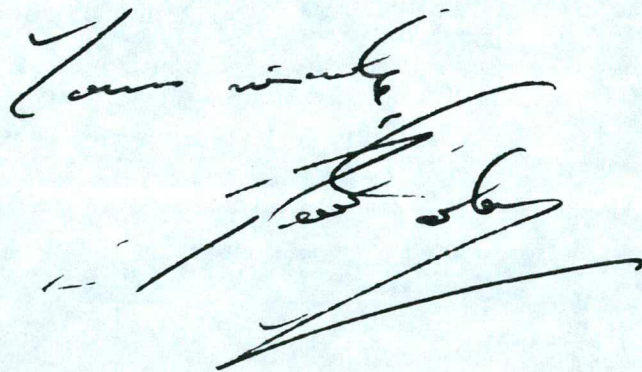
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As these amendments are a matter of detail, I assume that, at least until the last moment, you will be content for us to agree them with the Inland Revenue (Customs and Excise are not affected).

A copy of this letter and of the enclosures goes to Murdo Maclean. Christopher Jenkins here also has copies and will be able to deal with any queries during the early part of the afternoon.

PETER GRAHAM

Encs

A handwritten signature in black ink, appearing to read 'Peter Graham', with a large, sweeping flourish underneath.

SECRET

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138/4

"A"

1/RAFT

FINANCE BILL

Mr Chancellor of the Exchequer

To move, That Standing Committee B be discharged from considering those clauses and Schedules of the Finance Bill which it has not disposed of and that those provisions be committed to a Committee of the whole House; that the Chairman do now report to the House those clauses and Schedules the consideration of which has been completed by that Committee; that any stage of the Bill may be proceeded with at the conclusion of the preceding stage, notwithstanding the practice of the House as to the interval between the various stages of such a Bill; and that, on being reported from the Committee, the Bill, including those provisions reported from the Committee on 30th April and those reported from the Standing Committee this day, may be taken into consideration as amended without any Question being put.

SECRET

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11/142

DRAFT

" 13 "

COMMITTEE OF THE WHOLE HOUSE
FINANCE BILL

Mr Chancellor of the Exchequer

To move, That the order in which the remaining proceedings in Committee of the whole House on the Finance Bill are to be taken shall be Clause 37, Schedule 7, Clauses 38 and 39, Clauses 41 to 44, Clauses 46 to 48, Schedule 8, Clauses 49 to 51, Clauses 54 to 57, Clauses 59 and 60, Clause 67, Clauses 123 to 146, Schedule 12, Clause 149, Schedule 14, Clause 150, Schedule 15, Clause 151, Clause 153, Schedule 16, Clause 154, Schedule 17, Clause 155, Schedule 18, Clause 156, Schedule 19, Clause 157, Schedule 20, Clauses 158 and 159, Clauses 161 to 163, Schedule 21, new Clauses, Clause 40, Clauses 52 and 53, Clause 58, Clauses 61 to 66, Clauses 68 to 122, Clause 148, Clause 152, Schedules 9 to 11, Schedule 13, Clause 164, Schedule 22 and new Schedules.

SECRET

STANDING COMMITTEE B

Mr Hudson
13/2

New Amendments handed in are marked thus ★

FINANCE BILL

(Except Clauses, 11, 18, 20 to 23, 33, 45, 147 and 160 and Schedule 4)

NOTE

The Amendments have been arranged in accordance with the Order of the Committee [5th May] as follows :

Clauses 1 and 2, Schedule 1, Clauses 3 to 10, Clauses 12 to 17, Clause 19, Schedule 2, Clauses 24 to 29, Schedule 3, Clauses 30 to 32, Clause 34, Schedule 5, Clauses 35 and 36, Schedule 6, Clause 37, Schedule 7, Clauses 38 to 44, Clauses 46 to 48, Schedule 8, Clauses 49 to 63, Schedule 9, Clauses 64 to 106, Schedule 10, Clauses 107 to 113, Schedule 11, Clauses 114 to 146, Schedule 12, Clause 148, Schedule 13, Clause 149, Schedule 14, Clause 150, Schedule 15, Clauses 151 to 153, Schedule 16, Clause 154, Schedule 17, Clause 155, Schedule 18, Clause 156, Schedule 19, Clause 157, Schedule 20, Clauses 158 and 159, Clauses 161 to 163, Schedule 21, Clause 164, new Clauses, new Schedules and Schedule 22.

Sir William Clark

12

61

★ Clause 48, page 33, line 47, at end insert—

‘ Provided that this subsection shall not apply where the loss arises from carrying on a trade on a commercial basis with a view to profit or where the relevant amount is a charge on income, which may be surrendered in accordance with section 259(6), and is either incurred for the purposes of the trade carried on by the surrendering company or is only available for surrender under that subsection because of section 15(5) of the Oil Taxation Act 1975.’

Sir William Clark

12

62

★ Clause 48, page 34, line 37, leave out ‘ it carries on a trade of such a description that its main function or one of its main functions ’ and insert ‘ its main functions.’

Sir William Clark

12

63

★ Clause 48, page 35, line 11, leave out from ‘ (b) ’ to ‘ or ’ at end of line 7.

Sir William Clark

12

64

★ Clause 48, page 35, line 34, at end insert—
‘ (8) Nothing in this section shall be taken to apply to genuine trading companies.’

Finance Bill *continued*

- Sir William Clark 12
- ★ Clause 49, page 36, line 3, at end insert, 'Provided that this subsection does not apply where the successor is a trading company immediately prior to the transfer of the trade.' 65
- Sir William Clark 12
- ★ Clause 49, page 36, line 9, at end insert, 'provided that this does not apply where the asset will be used for the purposes of the trade of the dual resident or where the asset is transferred by a non-resident and represents shares as defined in section 38(2)(c), Finance Act 1973.' 66
- Sir William Clark 12
- ★ Clause 49, page 36, line 43, leave out '1987' and insert '1989'. 67
- Sir William Clark
- ★ Clause 49, page 37, line 3, at end insert— 12 68
- (8) This section shall not apply to—
- (a) companies excluded from the operation of clause 48, by reason of subsection 8 of that clause, or
- (b) the disposal of any asset used for trading purposes.'
-
- Sir William Clark 12 69
- ★ Clause 52, page 38, leave out lines 11 to 46.
- Sir William Clark 12 70
- ★ Clause 52, page 39, leave out lines 1 to 48.
- Sir William Clark 12 71
- ★ Clause 52, page 40, leave out lines 1 to 23.
- Sir William Clark 12 77
- ★ Clause 52, page 40, line 25, leave out '1st April 1988' and insert '1st January 1993'.
- Sir William Clark 12 73
- ★ Clause 52, page 40, line 27, leave out '(including the power to make regulations conferred by subsection (5) above)'.
- Sir William Clark 12 78
- ★ Clause 52, page 40, line 29, at end insert—
- (7) Where this section does not apply to the amount of credit by reason of subsection (6) above, then section 65 Finance Act 1982 shall continue to apply without the amendments arising from this section save that the amounts of 15 per cent. referred to therein shall be reduced to 13 per cent. in respect of interest payable after 31st December 1989; to 12 per cent. in respect of interest payable after 31st December 1990; and to 11 per cent. in respect of interest payable after 31st December 1991.'

Finance Bill, continued

Sir William Clark

★ Clause 52, page 46, line 11, at end insert—

'(3) In subsection 3(a) of Section 65 of the Finance Act 1982 for "15 per cent." there shall be substituted "10 per cent."

(4) In subsection 5 of Section 65 of the Finance Act 1982 for "15 per cent." there shall be substituted "10 per cent."'

12 72

Sir William Clark

★ Clause 53, page 40, leave out lines 33 to 47.

Sir William Clark

★ Clause 53, page 41, leave out lines 1 to 18.

Sir William Clark

★ Clause 53, page 41, line 23, leave out '1st April 1988' and insert '1st January 1993'.

Sir William Clark

★ Clause 53, page 41, line 25, at end insert—

'(4) Where this section does not apply by reason of subsection (3) above then section 66, Finance Act 1982 shall continue to apply without the amendments arising from this section save that the amounts of 15 per cent. referred to therein shall be reduced to 13 per cent. in respect of interest payable after 31st December 1989; to 12 per cent. in respect of interest payable after 31st December 1990; and to 11 per cent. in respect of interest payable after 31st December 1991.'

Sir William Clark

★ Clause 53, page 41, line 33, at end insert—

'(2) In subsection 3(a) of Section 66 of the Finance Act 1982 delete "15 per cent." and insert "10 per cent."'

(3) In subsection 4(b) of Section 66 of the Finance Act 1982 delete "15 per cent." and insert "10 per cent."'

(4) In subsection (5) of Section 66 of the Finance Act 1982 delete "15 per cent." and insert "10 per cent."'

Sir Brandon Rhys Williams

Clause 58, page 47, line 25, leave out from 'subsection' to end of subsection (3) and insert 'by a method consistent with what is necessary for solvency and for prudential underwriting.'

Sir Brandon Rhys Williams

Clause 62, line 49, line 35, leave out '35' and insert '30'.

Finance Bill, *continued*

Sir Brandon Rhys Williams

Clause 74, page 56, line 33, leave out subsection (4).

IR

23

Sir Brandon Rhys Williams

Clause 75, page 56, line 43, leave out from 'member' to end of subsection and insert 'or, if the member is not survived by a spouse, to a person or persons nominated by the member'.

IR

22

Sir Brandon Rhys Williams

Clause 75, page 57, line 10, leave out subsection (6).

IR

24

Sir Brandon Rhys Williams

Clause 75, page 57, line 32, leave out subsection 9(a).

IR

25

Sir Brandon Rhys Williams

Clause 77, page 58, line 5, at end add 'whichever provides the greater amount.'

IR

26

Sir Brandon Rhys Williams

Clause 86, page 62, line 7, leave out subsection (7).

IR

27

Mr Ian Wigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

Clause 109, page 71, line 30, after 'from' insert 'basic rate'.

IR + IAE3

14

Mr Ian Wigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

Clause 109, page 71, line 30, at end insert 'and employers' National Insurance contributions up to a maximum of 10 per cent. of total pay as specified in subsection (3) below; three quarters up to a maximum of 15 per cent. and the whole of total pay up to a maximum of 20 per cent'.

IR + IAE3

15

Finance Bill, continued

Mr Ian Wigglesworth
Mr Malcolm Bruce
Mr Matthew Taylor

IR+IAE3

Schedule 11, page 139, line 49, leave out 'twelve months' and insert 'at least two years'.
years'. 16

Mr John MacGregor

IR+IAE3

Schedule 11, page 141, line 1, leave out from beginning to end of line 2 and insert—
'(b) the percentage mentioned in paragraph (a) above reduced (if it is more than 100) or increased (if it is less than 100) by a specified fraction of the difference between it and 100;
and the reference in paragraph (b) above to a specified fraction is a reference to a fraction of not more than one half specified in the scheme.' 45

Mr William Cash

IR+IAE3

Clause 122, page 78, line 37, after 'auditor', insert 'or who is an accountant within section 50(5) of the Taxes Management Act 1970'. 47

Mr John MacGregor

IR+IAE3

Clause 122, page 78, line 40, at end insert—
'() he is the employer of employees to whom the scheme relates, or'. 46

Mr John MacGregor

IR

Schedule 15, page 151, line 6, at end add—
'() If the value of the property when it becomes held on the trusts referred to in subsection (1)(b) above is lower than so much of the value transferred on the death of the person referred to in subsection (1)(a) as is attributable to the property, subsection (2) above shall apply to the property only to the extent of the lower value.' 44

Mr John MacGregor

IR

Schedule 19, page 162, line 12, after 'purposes', insert 'which, subject to subsection (1A) below, are'. 50

Mr John MacGregor

IR

Schedule 19, page 162, line 21, at end insert—
'(1A) For the purposes only of subsection (1)(d) above, any reference in section 5A(2) of this Act to the territorial sea of the United Kingdom shall be taken to include a reference to the United Kingdom itself.' 51

Finance Bill, continued

NEW CLAUSES

Relief for expenditure on eligible securities

Mr Ian Wigglesworth
 Mr Malcolm Bruce
 Mr Matthew Taylor

12

NC1

To move the following Clause:—

- (1) This section has effect where an individual, who throughout a year of assessment is resident in the United Kingdom, incurs expenditure on acquiring eligible securities.
- (2) For the purposes of this section eligible securities consist of:—
- (a) shares or stock which at the time acquisition by an individual to whom the provisions of this section apply (or if later, on 5th April 1988) form part of the ordinary share capital of a company resident in the United Kingdom and are quoted on a recognised stock exchange; and
 - (b) units in such authorised unit trusts as the Board may by regulation prescribe.
- (3) An individual to whom the provisions of this section apply and who has, in any year of assessment, incurred expenditure on acquiring eligible securities may, by notice in writing given within six months after that year, make a claim for relief from basic rate income tax on an amount of his income equal to so much of such expenditure as does not exceed £500.
- (4) The Treasury may by order made by statutory instrument increase the amount of £500 in subsection (3) of this section to such amount as shall be specified in that order.
- (5) The following provisions shall have effect as respects relief under this section—
- (a) the amount of any expenditure in respect of which a claim for relief might otherwise be made under this section as regards any year of assessment shall be reduced by the aggregate amount of the proceeds of any disposals of eligible securities made during that year by the individual concerned;
 - (b) in the event that an individual to whom relief has been given under this section as regards any year of assessment disposes of eligible securities in any subsequent year of assessment (being a year of assessment ending on or before 5th April 1988) and does not in such subsequent year of assessment incur expenditure on acquiring eligible securities in an amount equal to or exceeding the proceeds of all such disposals, then he shall forfeit so much of such relief as is equal to the amount by which such expenditure falls short of such proceeds, or, if there is no expenditure so much of such relief as is equal to such proceeds;
 - (c) a claim for relief may require it to be given only by reference to the income of the individual without extending to the income of his spouse;
 - (d) subject to paragraph (c) above, relief shall be given by treating the expenditure as reducing first the earned income of the individual, then his other income, then the earned income of his spouse and then his spouse's other income;
 - (e) the relief shall be given in priority to relief under section 168 of the Taxes Act or section 30 of the Finance Act 1978.
- (6) Where the Board is of opinion that any acquisition or disposal of eligible securities which is material for any of the purposes of this section is not at arm's length and accordingly directs that this subsection shall apply, then for the purposes of this section there shall be substituted—
- (a) in the case of an acquisition of eligible securities, for the expenditure on such acquisition; or
 - (b) in the case of a disposal of eligible securities, for the proceeds of such disposal; the market value of such securities at the time of such acquisition or disposal.
- (7) This section shall not apply to individuals whose investment income exceeds £9,000 per year.'

*Finance Bill continued**Approved share option schemes*

Sir William Clark

IR

To move the following Clause:—

NC2

'(1) Schedule 10 to the Finance Act 1984 (approved share option schemes) shall have effect subject to the amendments in subsection (2) below.

(2) In paragraph 15(1) of Schedule 10 to the Finance Act 1984 for the definition of "qualifying employee" there shall be substituted the following words "qualifying employee" in relation to a company, means an employee of the company (other than one who is a director of the company or, in the case of a group scheme, of a participating company) who is required, under the terms of his employment, to work for the company for—

- (a) at least twenty hours a week where the employee has been employed continuously by the company for more than one year, but not more than three years, or
- (b) at least sixteen hours a week where the employee has been employed continuously by the company for not more than one year, or
- (c) at least twelve hours a week where the employee has been employed continuously by the company for more than three years but not more than five years, or
- (d) at least eight hours a week where the employee has been employed continuously by the company for more than five years.'

First Year Allowances

Sir Ian Lloyd
Sir William Clark
Mr John Watts

IR

To move the following Clause:—

NC3

'In section 42 of the Finance Act 1971 (rate of first year allowance for capital expenditure incurred on provision of machinery or plant) the following new subsection shall be added:—

"(2) (a) subsection (1) above shall not apply with respect to capital expenditure incurred after 1st April 1987 where that expenditure in any financial year is less than £10,000 in total.

(b) where subsection (2) above applies the first year allowance shall be of an amount equal to the expenditure of which it is made".'

War widows pensions'

Mr Nicholas Winterton
Sir Bernard Braine
Mr Alfred Morris
Mr Alec Woodall
Mr Andrew Bowden
Sir Patrick Wall

IR

To move the following Clause:—

NC4

'The second pension from the Department of Health and Social Security given to those widowed since the implementation of the 1973 Armed Forces Pensions Schemes in addition to the Forces Family Pension shall be granted to all those widowed before the 1973 Armed Forces Pension Scheme in addition to their existing War Widows' Pension.'

Finance Bill, continued

Exemption from duty of hydrocarbon fuels used by engine manufacturers

Mr Roger King

CUE

NC5

To move the following Clause:—

'In the Hydrocarbon Oil Duties Act 1979, section 9, subsection (2)(b) after "article", delete the rest of the subsection and insert:

"(c) and use in the bench-testing of an internal combustion piston engine during the research, development, manufacture or preparation of such engine or any part thereof by a manufacturer of motor vehicles or of motor vehicle engines or parts thereof or by any organisation engaged in such engine research and development, but do not include except as provided in subsection (2)(c) above the use of oil as fuel or, except as provided by subsection (3) below, as a lubricant."?

Transfer payments and preserved benefits (No. 2)

Sir Brandon Rhys Williams

12

NC6

To move the following Clause:—

(1) It shall be permissible for the trustees of an occupational pension scheme which is an exempt approved scheme under section 21 of the Finance Act 1970, to amend the rules of the scheme in regard to the calculation of transfer payments and of preserved benefits on behalf of any member ending pensionable service before the normal age of retirement under the scheme in accordance with the provisions of this section.

(2) For the purposes of this section "trustees", in relation to a scheme which is not set up or established under a trust means the managers of the scheme.

(3) To comply with the provisions of this section, the amended rules of the scheme shall require the trustees in respect of any member withdrawing from pensionable service before the normal pension age under the rules of the scheme at the withdrawing member's option either—

(a) to pay to an approved scheme a transfer payment in respect of the withdrawing of Members' entitlement of the sum that would be required by the withdrawing member's scheme for the purpose of admitting a new member of the same age, sex and pensionable remuneration as the withdrawing member in order to credit him with the same number of years of pensionable service as the withdrawing member, (but subject to modification in accordance with (4) below) or

(b) to award preserved benefits to the withdrawing member of the same actuarial value as that sum.

(4) In a case where an actuary certifies that on the date of the certificate the scheme is not fully funded, (which is to say that the scheme does not have sufficient assets to meet its liability in respect of the whole or any specified part of the accrued rights to benefit of its members), the transfer payment, or as the case may be, the part of the transfer payment which corresponds with that specified part of those accrued rights, may be reduced by the percentage by which the scheme is so shown to be deficient.

(5) A scheme which by 1st January 1988 has not amended its rules so that the transfer payments and the preserved benefits payable under the scheme are to be calculated on terms at least as favourable to the beneficiaries as those specified in this section shall not qualify as an exempt approved scheme in respect of liabilities incurred after that date except by the permission of the Occupational Pensions Board.

(6) A scheme may apply to the Occupational Pensions Board for deferment of the latest date for the amendment of its rules in accordance with this section and to retain its status as an exempt approved scheme in respect of its liabilities incurred after that date to a date not later than 1st January 1992.

(7) The Secretary of State for Health and Social Security shall lay before Parliament regulations under this section subject to affirmative resolution of the House of Commons which shall specify the grounds on which the Occupational Pensions Board may approve applications for deferment under subsection (6) above.'

CONFIDENTIAL

MR E BRADLEY



FROM: M C FELSTEAD
DATE: 12 MAY 1987

cc: Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Butler
Mr Wilson
Mr Anson
Mr Judd
Mr Gilmore
Mr Burgner
Mr Scholar
Mr Turnbull
Mr Mason
Mr Revolta
Miss Sinclair
Mr Bonney
Mr Waller
Mr Dyer
Mr Jenkins (T.Sol)
Mr Graham (Par. Counsel)
Mr Cropper
Mr Tyrie
Mr Ross Goobey

1. Gals
(weeded)
2 py

FEES AND CHARGES VIRES: FINANCE BILL

We discussed this morning your submission of 11 May recording the latest position on the fees and charges clause for the Finance Bill. Given that we still do not have departmental agreement, your advice was that this clause should be left over until after the Election and a second Finance Bill.

2. I mentioned to you that this was also the Chief Secretary's conclusion and he would be grateful if you could sort out urgently the problems on this clause so that it is ready for inclusion in a second Finance Bill. It follows, of course, that there should be no announcement about this clause until after the Election.

M C Felstead

M C FELSTEAD
Assistant Private Secretary



NSC CHANCELLOR/2
 FINANCIAL SEC
 MINISTER OF STATE
 ECONOMIC SEC
 MR BUTLER
 MR SCHOLAR
 MISS SINCLAIR
 MISS C EVANS
 MR. CROPPER
 MR. TYRRE
 MR. ROSS GOOBEY.
 MR REED | I.R.

Treasury Chambers, Parliament Street, SW1P 3AG

Robin Ivison Esq
 The Institute of Taxation
 12 Upper Belgrave Street
 LONDON SW1X 8BB

12th May 1987

Dear Sir,

FINANCE BILL 1987, CLAUSE 40

Thank you for your letter of 21 April.

I should explain that the purpose of Clause 40 is simply to bring the law on apportionment into line with the way the Inland Revenue operated it before the Lansing Bagnall case.

This is being done by making obligatory various wide-ranging discretionary powers given to the Inspector which we feel are inappropriate in tax legislation. There is therefore no reason to expect that in future the apportionment legislation will be applied by Inspectors in a different manner from how it was applied in the past.

The Inland Revenue advise me that they are not aware that significant problems arise under Paragraph 3A of Schedule 16 to the Finance Act 1972 either in connection with overseas income or otherwise. They do not believe that in general this is because Inspectors have a wide-ranging discretion when considering apportionment - before the Lansing Bagnall case the training of Inspectors and the instructions to them were on the basis that the relevant provisions were obligatory, subject to the normal and continuing power of an Inspector not to pursue amounts of tax which would be disproportionately expensive to collect. So the Revenue do not expect Clause 40 to cause the apportionment legislation to be applied differently from the way it was applied before the Lansing Bagnall decision.

However, I recognise your concerns about the effect of the existing legislation. On such complex matters, it would I think be wrong to rush into legislation before your Institute and the Revenue have been able to agree on the nature and seriousness of any problems and the possible solutions. I have therefore asked the Revenue to get in touch with you soon to commence this process but I think it would be unrealistic to expect this to result in any amending legislation in the current Finance Bill.

I turn now to your point about the rights of audience of IOT members before the appeal Commissioners. You enclose a copy of your letter to the Lord Chancellor about rights of audience and about the extension to IOT members of protection equivalent to legal professional privilege. Perhaps you would treat this reply as a response to both letters.

The consultative document "The Inland Revenue and the Taxpayer" covers the Keith Committee recommendations on rights of audience and professional privilege. These aspects were not amongst those indicated as for priority consideration. Thus the closing date for representations is 31 October this year. In the circumstances I do not think it would be appropriate to address these aspects in the present Finance Bill.

We have decided to exclude clause 40 from the shorted Finance Bill as an attempt to get through this would so the cler will be proper time to debate it. I enjoyed meeting you yesterday at the hotel. With best wishes,

Yours sincerely, JOHN MacGREGOR

John Macgregor

cc PPS

PHF

Mr Schlar

Mr Walters

Mr Holligan

Mr Short

Mr Tyrie

Mr Mace - IR

Mr Ross - Goobey

Miss O'Mara

Mr Hudson

MISS SINCLAIR

CLAUSE 20

I attach some brief speaking notes the Chief Secretary may draw on - in conjunction with separate material provided by Mr Ross-Goobey.

I would be grateful if you could check it. Could Messrs Holligan and Short conspire to fill in the gaps for the random selected beneficiaries of income tax cuts. There is nothing sacrosanct about the groups chosen - save that the Chief Secretary has asked that we avoid the well-used nurse and teacher. A couple of private sector examples would be useful.

Comments please by noon today.

Jim Ruth

12 May 1987

x 4339

3298,003
DRAFT

SPEECH ON INCOME TAX

When we debated the two pence reduction income tax in this House less than two weeks ago, the Hon Member for Dagenham accused the Government of showing judgement "as mistaken as it is cynical" in choosing to reduce income tax. So confident are the Opposition of their ground that they have chosen to debate this very same subject again today. Indeed in many ways we should be grateful for them doing so - for few other issues underline so starkly the difference between our two Parties. As to the judgement we have made - I am prepared to leave that to the Country.

X
2. Let me briefly restate why we believe it is right to take action to reduce the basic rate of income tax. The basic rate of income tax is the marginal rate for (95⁴) per cent of all taxpayers. Reducing the basic rate of tax therefore directly improves the incentives for some [] million taxpayers. It allows them to keep more of the rewards of their own efforts. It is good for incentives, it is good for motivation and the British economy benefits. If these lower tax bills feed through into lower pay settlements, then there will be a directly beneficial effect on employment. All too often the Opposition try to distinguish between expenditure as being good for jobs

Not really a
false dichotomy,
just misconceived.

and tax cuts as not. That ^{reveals} is a false dichotomy, based on their fundamental failure to grasp the way in which the economy works.

It also underlines their lack of faith in the British economy.

They assume that every time a British worker has an extra pound ^{in tax cuts} to spend he will choose not to spend it on British goods but on those manufactured in Tokyo or Cologne. *But they do not apply*

the same logic to wage increases. Bizarre, but typical of the confusion they fall into on every economic subject.

2(a) This new clause allows us a rerun of the debates we had last year. Last year, there was much talk of tax rates ~~and~~ ^{vs} allowances. This year that debate has hardly started. We have already made substantial progress in increasing income tax allowances - 22% up in real terms since 1978-9. ^{1.4} X m fewer people pay tax now than they would have done if we had simply increased tax allowances since 1978-79. The starting point for tax in the UK is now about the average for industrialised countries. So we decided in this year and last year's Budgets that the time had come to start making inroads into the basic rate of tax. We all want to go further in the next Parliament. We have already succeeded in reducing the rate of income tax from 33 pence when we took office - alleviated only for the lowest paid by a narrow reduced rate band of 25 pence - down to 27 pence, with every prospect of going further in the years to come.

3. The attitude of the Opposition is quite clear. They believe in high taxes. They do not believe taxation is a necessary evil, but necessary ^{and desirable} per se. They believe that allowing people to keep more of their own money is "giving money away" not

The reverse. They see the tax system as some great engine of social change, penalising those who aim to better themselves and their families; they do not recognise the language of incentives, effort or motivation. Rather they recognise only the language of envy.

4. The extent to which we have won the ideological argument is demonstrated by the convoluted attack on income tax cuts which was indulged in by the Hon Member for Dagenham in last fortnight's debate. True he did at various junctures imply that the Opposition did not think we were right to give priority to reducing income tax. But the bulk of his onslaught was not that we were cutting taxes, but that we had failed to cut them enough. Although he acknowledged that cutting the burden of taxation was a matter of no great import to the Opposition he accused us of fighting on a false prospectus.

5. That argument was decisively put to rest by my Right Hon friend the Chancellor. For we have no hesitation in acknowledging that we have done less than we would have liked in cutting the burden of taxation - in no small part that is because we have done so much in reducing that equally oppressive burden - the burden of public borrowing. Of course its easier to deliver round upon round of tax cuts, if you are prepared to leave borrowing at the levels we saw in the 1970s. Indeed with borrowing at 1975-6 levels, there would be hardly any need for income tax at all.

6. I would be the first to agree with the Hon Member for Dagenham that though we have gone far, but not far enough. The Hon Member disputed our figures because they took account of the growth in real earnings - as if this were some cosmetic adjustment to the figures rather than an illustration of the benefits our economic progress has brought. But let me argue on his grounds. Even assuming no growth in real earnings at all since 1978-9 - almost a re-run of Labour's own dismal performance - the proportion of income tax is down at all levels of earnings.

7. But the Hon Member seemed to think that this so-called "failure" to cut taxes indicated we should give up trying. He did not take the logic of his argument. Rather than support our efforts to reduce the burden of taxation he said that Labour would be committed to reverse the income tax reduction. They voted against it in the lobbies on 29 April. Indeed they are voting against it today.

8. Let me just remind you of the consequences Mr Speaker if that clause were not to be passed today. The income tax cuts proposed by the Government will be appearing in pay packets from 17 May onwards. A married man on average earnings will be £3.87 a week better off as a result. A married man on half average earnings will be £1.59 a week better off.

omit?
[9. A reversal of the Government's proposals would introduce a considerable degree of chaos. Many employers with computerised

payrolls will already have run their monthly pay for May. Many of those without computerised payrolls will have calculated pay in advance on the basis of a 27p basic rate. It would simply not be possible to ask such employers to reverse the income tax cuts at this stage. We would have to allow them to put the 27p basic rate into effect, and then claw it back. Employers would not know where they stood. And I leave it to Honourable Members to imagine how those benefitting from the proposed income tax cuts would feel as they saw their pay packets going up and down like a see saw.

10. But let us all be clear - the consequence of a vote for the Labour party on June 11th would not just be a 2p increase in income tax - it would be a (doubling) to finance their "hidden" manifesto of uncontrolled public expenditure. When the Hon Member for Dagenham was appointed to bolster the shadow Treasury team in the autumn we thought he might prove rather more successful than his *rhf*, the Member for Sparkbrook in stemming the torrent of commitments. But to no avail. His other preoccupations have no doubt distracted him too much. So the prospectus for Labour is one of higher taxation and higher borrowing, leading yet again to that familiar spiral of high inflation and deteriorating economic performance that typified Labour's economic management of the 1970s.

11. So what of the SDP and Liberals. Last time we witnessed the Jenkins compromise - to vote against the income tax cut now, but not to decide whether to reverse it on taking office.

It is a tribute to the SDP and Liberals that their contortions make Labour policy look a model of coherence. Perhaps this time we will have the reverse proposition - to appeal to another set of voters - to vote for income tax reductions now, and then promise to reverse them post election. But like their Opposition colleagues the SDP and the Liberals have a distinct leaning towards higher taxes and more state spending.

12. Mr Speaker, I can agree with Hon. Members Opposite in one respect at least. This is the centrepiece of the 1987 Finance Bill. It is a measure which sets the British economy firmly down the path toward lower taxes, not for the well-off, but for all taxpayers. For the second year running we have deliberately ensured that the basic rate taxpayer does better proportionally than the higher rate taxpayer.

13. Next week the effect of those reductions will start to be felt in pay packets. The young Police Constable will be [] a week better-off; the underground driver [], the average manual worker in the water industry []. That is not a cynical pre-election bribe. It is a dividend - a dividend of eight years of prudent and sound economic management. It is that same prudent and sound economic management which allowed us to reduce borrowing to 1 per cent GDP. It is that same prudent and sound economic management which enabled us to increase our spending in priority areas by £4¼ bn this year.

14. That is the prospect~~ive~~ on which we will fight the

election - not the fictions dreamt up in Walworth Road, laced with the Rt Hon. Members recurring nightmares about their own time in power. It is a prospect~~ive~~ which has already re-dynamised the British economy after years of failure.



FROM: J J HEYWOOD
DATE: 12 May 1987

MR PITTS IR

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Scholar
Mr Williams
Miss Sinclair
Ms Leahy
Mr Graham OPC
PS/IR

CLAUSE 157: SOVEREIGN REPRESENTATIONS ABOUT THE EMERALD FIELD DEVELOPMENT

1. The Financial Secretary has read your minute of 6 May covering Mrs Hubbard's submission of the same date.
2. He agrees with Mrs Hubbard's advice that this representation ... should not be met. I attach a copy of the letter sent to Sovereign today.

JEREMY HEYWOOD
Private Secretary

ENC



Treasury Chambers, Parliament Street, SW1P 3AG

D Biggins Esq
 Managing Director
 Sovereign Oil and Gas plc
 Portland House
 Stag Place
 LONDON
 SW1E 5BH

12 May 1987

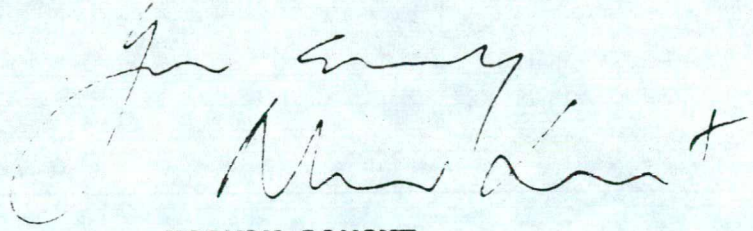
David W. Kaye

Thank you for your letter of 16 April about the proposals contained in Clause 157 and Schedule 20 of this year's Finance Bill.

I am afraid that your proposal that lease payments should be brought within the Cross Field Allowance (CFA) is by no means as simple as you suggest. Your proposal would seem to bring within the CFA almost all tariff payments, as these are usually for the use of facilities which would, if purchased or constructed direct, have qualified for supplement. There is also the problem that lease payments normally incorporate a finance cost element spread over the life of the asset. As the percentage of expenditure actually relieved under the CFA does not attract supplement in the receiving field, it would be necessary to introduce some formula to strip out the financing costs from the lease payments too. Lease payments normally spread the cost of an asset over its working life. Thus, although CFA is cut off once a field reaches payback, to do so in relation to lease payments would not be putting this form of financing of development costs on a par with direct expenditure.

Finally, it would be necessary to introduce an administrative machinery for certifying that the lease payments would have qualified for supplement etc in order to trigger the procedure for making CFA elections. (In the CFA provisions in the Finance Bill the opportunity for a CFA election does not arise until it is established that the expenditure is allowable as qualifying for supplement in the field of origin; this would not apply to lease payments for production facilities.) It might also be necessary then to have an appeals machinery for this certification procedure.

While none of these difficulties is insurmountable, it would nevertheless entail considerable modification of what is already a fairly complex provision. I cannot therefore hold out any hope of meeting your representation in this year's Finance Bill.

A handwritten signature in cursive script, appearing to read "Norman Lamont", with a small cross-like mark at the end of the signature.

NORMAN LAMONT

1 Alex
2 PWP

FROM: B O DYER
DATE: 12 May 1987

01-270 4520

Separate copies to: **PS/Chancellor**
 PS/Chief Secretary
 PS/Financial Secretary
 PS/Economic Secretary
 PS/Minister of State
 PPS to all Ministers
 Mr Neubert
 Mr Scholar
 Miss Sinclair
 Mr Romanski
 Mr Walters
 PS/IR
 PS/C&E

FINANCE BILL : TUESDAY 12 MAY 1987
COMPLETION OF ALL STAGES IN THE HOUSE OF COMMONS

The following sets out the order of proceedings, grouping of Clauses and Schedules, the Government amendments selected and the allocation between Ministers:

PROCEDUREACTION

Procedure motion discharging (circa 3.30pm) CST
 Standing Committee

Ordering motion for CWH CST

COWH

Debate on Clause Stand Part + CST/FST/EST [Govt AYE]
 Government Amdts

	37 + Sch 7	FST
	39	FST
	41-44	EST
	46	FST
	54-56	FST
	67	CST
	138-146+Sch.12	EST
	149+Sch.14	FST
Govt 44	150+Sch.15	FST
	151	FST
	153+Sch.16	FST

GOWH (cont.)

	154+Sch.17	FST	[Govt AYE]
	155+Sch.18	FST	
Govt 50+51	156+Sch.19	FST	
	157+Sch.20	FST	
	158+159	FST	
	161	EST	
	162	FST	
	163+Sch.21	CST	

No new Clauses

Debate on Clauses

to be dropped	38	FST	[Govt: NO]
	40	FST	
	47-53	FST/EST	
	57-66	FST/EST/CST	
	68-137	CST/FST/MST/EST	
	148	FST	
	152	FST	

**Schedules to
be dropped**


	Sch.8-11	FST/CST/MST	[Govt: NO]
	Sch.13	FST	
Govt 52 to 60	C1 164+Sch.22	CST	<u>[Govt: AYE]</u>

Report Stage:

Opposition Amendment to delete C1.20	CST
Govt amendment to delete C1.34+Sch.5	CST
All Clauses	Ministers responsible

Third Reading:

CST to move



B O DYER



THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

FROM: J H REED
DATE: 13 MAY 1987

1. MR MCGIVERN *13/5*
2. FINANCIAL SECRETARY

FINANCE BILL: CLAUSE 37

Following TCC on 27 April, Mr Sutherland wrote to you on 28 April about Clause 37, which harmonises the rules concerning the time when corporation tax should be paid.

2. He thinks that the clause works unfairly because it will cause the companies affected to pay tax at intervals of less than twelve months. He suggests two alternatives:

i. leaving the existing arrangements alone but introducing a specific measure to counteract abuse; or

ii. harmonising payment intervals at nine months but where this advances the date of payment, a corresponding amount of the profits should drop out of tax.

3. To demonstrate the unfairness he puts forward an example which shows a company commencing its trade under the income tax system which applied before 1965 and continuing to trade after the introduction of corporation tax. In the example, 23 months profits have been taxed twice (in the sense that they

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Ross Goobey

Mr Painter
Mr McGivern
Mr Beighton
Mr Campbell
Mr Johns
Mr Reed
Mr D Carr
PS/IR

have formed the basis of more than one year's assessment). All of this double taxation relates to income tax - no profits are subject both to income tax and corporation tax or are doubly charged to corporation tax.

4. The fact that a business's first year profits will be taxed more than once is not a new point. It was dealt with in para 4 and Annex 5 of my submission of 17 October last.

5. Mr Sutherland says that the fact that some companies were given a payment interval of more than nine months was a cash flow concession which rendered the double taxation tolerable in 1965. He thinks it is wrong to withdraw it.

Commentary

6. Mr Sutherland's example is factually correct. Under the commencement rules for income tax (which still apply to unincorporated businesses) there is double (or even triple) taxation of the early profits (although it was not uncommon for these profits to be reduced or eliminated by payment of directors' remuneration). If the business ceases this is compensated for by excluding from tax the profits of a comparable period (although these may of course be very different in amount). When corporation tax was introduced there was a transitional relief for companies which ceased in the period up to 1970-71, but subsequently there has been no relief. So under the existing rules the company in Mr Sutherland's example would, if it ceased trading, be doubly taxed on 23 months profits. Clause 37 does not change this.

7. What it does do is to advance the payment of tax. However, even under the present arrangements a company with a long payment interval has to make provision in its accounts for the future tax liability. So the real difference is one of cash flow, and in some cases the turning of a long term tax debt (over 12 months) in the balance sheet into a short term one. Nevertheless, the change will be felt by the companies affected.

8. The main justification for the change is of course that while profits continue to increase a company with a long payment interval pays less tax at any given time than a company with identical profits but a nine months payment interval. This has given it a cash flow advantage since 1965 and if the system had remained unchanged this advantage would continue to grow indefinitely. The companies were not therefore competing on an equal footing. And in Annex 1 of my submission of 17 October 1986 (copy attached) I included an example showing the potential value since 1965 of this cash flow advantage. This example is mentioned briefly in the attached draft reply.

9. While the cash flow concession resulting from a long payment interval (para 4 above) may indeed, as Mr Sutherland says, have made the change to corporation tax more bearable, this justification wears increasingly thin as the benefits of the concession continues to accumulate. We think it is perfectly defensible to take the line that the time has come to end this anomaly. And because of the considerable benefit that many companies will have realised from this concession, we saw no need (and still see no need) to provide a relief when withdrawing the concession. This is the line taken by the draft reply.

✓
J H REED

Assume

- (i) Companies' nominal CT liabilities have increased at an average rate of 5% per annum over the last 20 years. (1)
- (ii) Company B has a 21 month payment gap, company A a 9 month gap.
- (iii) Average rate of interest which could be earned/saved by company is 10% gross. (2) At pre-1984 Budget CT rates this was worth 5% post-tax to companies paying at the main rate. (3)
- (iv) The interest saved/earned by B on its lower tax bill is accumulated within the company.

Then company B is paying tax arising on profits earned 1 year later than company A. Thus if B's CT liability is 100 in 1967/8 (based upon 1965 profits), A's liability is based on 1966 profits and is therefore 105. As long as CT is increasing steadily B will pay less tax than A in each and every year, and will gain an interest advantage over A in respect of its lower tax bill as follows:

CT due in financial year	Company B (21 month gap)	Company A (9 month gap)	Difference	Cumulative post-tax interest on "saved" tax to 1987 (at 5% p.a.)
1967	100	105	5	8.3 (ie 5% pa compound interest on £5
1968	105	110.3	5.3	8.0
1969	110.3	115.8	5.5	7.8
1970
.
1986	252.7	265.3	12.7	0.6
1987	265.3	278.3	13.3	-
Total			179	100

Then over the 21 year period company B has paid a total of £179 less CT and earned/saved £100 interest net of tax on this lower CT liability - ie a total of £279. This is precisely the extra CT liability that it would incur if its payment date was reduced by 12 months.

It should be noted that this exact balance between accumulated "saving" and the extra CT payable only

applies to the above assumptions. Different assumptions will produce slightly different results; but other plausible assumptions do confirm that the notional accumulated saving to companies is of the same order of magnitude as the extra CT payable. For example a 7% annual growth in CT liabilities is arguably a more realistic assumption; this would provide a notional accumulation saving of £475 against £410 additional CT liability.

Notes

- 1 The growth in CT liabilities has fluctuated greatly over the past 20 years. In total the average compound growth has been rather more than 5%, but some of this growth will no doubt be attributable to companies formed since 1965.
- 2 Average base rate over the last 20 years or so has been about $9\frac{1}{2}\%$.
- 3 A constant CT rate of 50% has been assumed to simplify the arithmetic, but since FY86 10% gross equates to $6\frac{1}{2}\%$ post tax.

B W Sutherland

FINANCE BILL: CLAUSE 37

Thank you for your letter of 28 April.

There are I think two separate, although related, points here. One is the commencement and cessation rules for income tax, and the effect of the change to corporation tax. The other is the date of payment of corporation tax on the profits of a particular accounting period.

When corporation tax was introduced the general rule was that it first applied to income arising after the end of the last period which formed the basis of a charge to income tax. So no income fell out of charge altogether on the transition, nor was any doubly charged. For a continuing business this produced a reasonable result.

If however the business subsequently ceased, this rule, in isolation, would as you say have produced an element of double charge. This, as you are aware, is because on the commencement of a business the income tax rules provide for some profits to form the basis of the assessment for more than one tax year and so to this extent there would be a double charge. For income tax, there is indeed a compensating relief on the cessation of a business, under which some profits escape tax altogether (although these may be very different in amount from those which

were doubly taxed). But it was decided that it would not be appropriate to make a relief of this kind a permanent feature of the corporation tax. There was however a transitional relief for companies which ceased trading up to 1970-71.

Clause 37 makes no change to the amount of profits which are charged to corporation tax. So if a company ceases trading it would eventually pay the same amount of tax as it does at present. The difference is in the timing of the tax payments.

This brings me on to the second point. As you say, the effect of the arrangements for the introduction of corporation tax was that the company continued to pay tax at annual intervals (assuming that it continued to have accounting periods of twelve months). This was done by making corporation tax payable at the end of the same interval as had applied for income tax. So some companies paid tax nine months after the end of their accounting periods while others had a longer payment interval (of up to almost 21 months).

The trouble with this arrangement is that at a time of rising profits the company with a longer payment interval gains an advantage over a company with a shorter interval. If their profits are identical throughout the whole period, the company with the longer interval will always pay less tax in any given year than the company with the shorter interval. This continuing advantage has been present for over twenty years and if the legislation were not altered it would

continue indefinitely (assuming profits continue to rise). This is contrary to our general policy of letting businesses compete on equal terms.

So I have no doubt that it is right in principle to harmonise payment intervals at nine months. This will of course mean that the companies affected will during the transitional period pay corporation tax at intervals of less than twelve months. But in general this will no more than compensate for the continuing advantage these companies have received since 1965. The balance between the two factors does of course depend upon the circumstances of each company. But an example gives some idea of this. Assume that a company with a payment interval of almost 21 months has a CT liability which has increased at an average rate of 5 per cent a year over the last 20 years (slightly below the actual average increase), and that it could earn (or save) 5 per cent after tax on the amount it saved by having a smaller tax bill in any year than a company with the same profits but a payment interval of nine months. Over this twenty year period the amount it could have earned or saved would be equal in amount to an extra year's tax liability. This shows the large advantage it would have gained over a company with a nine months payment interval. We recognised that making our proposed change in one go would have caused severe cash-flow difficulties for some companies, which is why we have provided a transitional period.

I note what you say about the abuse of the existing provisions. The new arrangements will indeed stop this abuse but that is not the main reason why we proposed them. Their main purpose is to ensure that companies (and building societies) compete with each other on more equal terms. The change will of course also result in a further simplification of the corporation tax system.

NORMAN LAMONT



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

PS

FROM: P JEFFERSON SMITH
13 May 1987

PS/MINISTER OF STATE

cc PS/Chancellor
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Ross Goobey

FINANCE BILL CLAUSE 15 : AMENDMENT BY JOHN WATTS MP

In the Standing Committee debate on Clause 15 of the Finance Bill on 7 May, the Minister offered to write to Tim Smith MP, after Mr Smith had referred to a number of amendments to the Clause which another Member, John Watts, had put down but which had not been ... selected. A suggested draft reply is enclosed.

PS

P JEFFERSON SMITH

Internal distribution: CPS Mr E Taylor
 Mr Knox Mr G Michie
 Mr Nissen Mr P Smith

146/5/87

DRAFT LETTER TO TIM SMITH MP

During the Standing Committee debate on Clause 15 of the Finance Bill on 7 May, you referred to a number of amendments to the Clause which John Watts had put down. The amendments were not selected; but I offered to write to you and John to explain why I would have advised the Committee to reject them if they had been debated.

The first amendment was designed to remove the discretion which the Clause gives the Commissioners to refuse relief from tax if they are not satisfied that the assets were acquired by the transferor more than three years before the date of transfer. This discretion is intended as a safeguard against the use of the transfer of going concern procedures as a tax avoidance device. In exercising the discretion the Commissioners will normally accept ordinary commercial documentation as sufficient evidence and the requirement is in no way onerous for businesses. Removal of the discretion would increase the likelihood of complex litigation on whether or not particular commercial records constituted reasonable evidence to support a claim to relief and this could lead to uncertainty in the application of the Clause while the issue was being considered by the VAT Tribunal or the courts.

The next two amendments were apparently intended to provide that the deemed supply by and to the representative member of the group should be treated as supplied by, and to, the representative member

for the purpose of the group's business. I am advised that the amendment is unnecessary. Under Clause 15(4) as drafted, the use of the pronoun 'its', in contrast to 'his' in Clause 15(5), already implies that the supply is to be for the purpose of, and in the course of, the group's business. In any case, Section 29(1) of the Value Added Tax Act 1983 provides that where any bodies corporate are treated as members of a group, a business carried on by any member of the group is to be treated as carried on by the representative member. Similarly, Section 29(1) provides that any supply to a group member is to be treated as a supply to the representative member.

I presume that the last of the four amendments was intended to exclude from the scope of the charging provision intangible property such as goodwill. If it were adopted, the amendment would in addition include a wide range of intellectual property and other intangible assets. In some cases this could give rise to tax avoidance opportunities for a partly exempt VAT group, where the transferor had incurred significant input tax in acquiring the assets, for example computer software where the price actually paid might far exceed the intrinsic value of the software itself. However Customs and Excise published guidance already makes it clear that they do not regard the charging provision as extending to goodwill, inclusion of which would lead to considerable valuation problems.

I hope you will find this of some help: as I say, I would not have felt able to agree to the amendments if you had been successful in having them debated but perhaps on reflection you may accept that the Clause is satisfactory as it stands.

I am sending a copy of this letter to John Watts.



cc ps/bhencella

Mr Scholer

Miss Sinclair

Mr Brooker

PS/C&E

Mr Tracey - C&E

Treasury Chambers, Parliament Street, SW1P 3AG

Sandy Anson Esq
Secretary of Taxation Committee
Institute of Directors
116 Pall Mall
LONDON SW1Y 5ED

14 May 1987

Dear Sandy,

FINANCE BILL CLAUSE 16 - TOUR OPERATORS

Thank you for your letter dated 5 May in which you expressed concern about two aspects of the proposed margin scheme for tour operators.

2. I should make clear initially that we are legislating for this scheme without any great enthusiasm. We have in fact delayed implementing Article 26 of the EC Sixth VAT Directive as long as we could but in the face of prospective action against us by the Commission in the European Court we had to recognise that our case for resisting the implementation of a mandatory provision of the Directive was extremely weak.

3. I would also like to make one other general comment. Your concern is expressed in terms solely of UK traders and the UK domestic scene. One of the principles behind Article 26 is to allow a complete "internal market" to operate in travel/holiday services without the inequities of double taxation on the one hand or non-taxation on the other. In addition the scheme is designed to distribute the VAT charged on a given transaction fairly between the Member State where the service is physically enjoyed and the Member State where the transaction is effected. Travel, holiday and tourist services generally are, almost by definition, internationally based. While it is therefore reasonable for you to concentrate on the effect domestically, we must recognise that operators and agents in other EC Member States get involved in the UK market and we must be careful not to do anything which discriminates against them and brings renewed Commission action against us for being in breach of the Sixth Directive. We must therefore adhere as closely as possible to the principles laid down in Article 26.

4. Your first point relates to the potentially wide scope of the definition of "tour operator" in the proposed section 37A(3). Your concern here is reflected in all the points in the penultimate paragraph of your letter apart from (b). The purpose of the new section 37A is to allow a comprehensive Order to be made covering not only those supplies actually caught by the scheme but also other supplies in competition with those supplies. For example there is the problem of in-house supplies. Many operators have their own aircraft, coaches, hotels etc and they may use these assets to supply travel or hotel services along with supplies they buy in from others. It will very frequently be the case that a package tour will consist of both bought-in (margin) supplies and in-house supplies. It is therefore clear that the legislation underpinning the special scheme must allow Customs to deal with permutations and complications of this kind. Another complication is that our place of supply rules for tourist services are to some extent out of step with the corresponding rules in the EC Sixth Directive. It is vital to get these rules in step for in-house supplies as well as the margin supplies, otherwise there will be a recipe for chaos. It is for this sort of reason that the clause has been drawn in fairly wide terms.

5. More specifically in relation to paragraph 13 of your letter.

a. Inclusion of the word "direct" in the proposed section 37A(3). This was in fact an amendment moved by John Butterfill in Standing Committee and I have nothing to add to what I said then. I attach a copy of the Official Report of the debate for your information.

b. Single supplies as opposed to package supplies should not be included. The Commission has told Member States quite specifically that Article 26 does apply to single supplies. It is difficult to see how this could be otherwise without causing distortion and artificial aggregation or disaggregation whichever way the advantage went. It would add to the complications of businesses if they had to adopt one set of rules for a single supply and one set of rules for a multiple supply containing a supply whose origins and purposes were the same as the single supply. For example, a tour operator might buy in a block of hotel rooms at an advantageous price, some of which he might want to supply singly to clients making their own travel arrangements and some of which might be tied up in typical packages. Some of the tax on the block of rooms would be deductible and some would not if your suggestion were followed. Customs have looked at all this very carefully in conjunction with ABTA and they assure me that it is essential for all bought in supplies to be swept into one overall margin calculation.

c. A de minimis exemption. This is something which Customs and Excise have already been considering. In principle the clause must apply equally to all supplies of the same type whatever the particular supplier elects to call himself. For example a coach operator cannot escape being caught by the legislation if he sells inclusive holiday tours round

Scotland or the Lake District. On the other hand, Customs recognise that it would be unreasonable to impose all the requirements of the scheme on a business which, almost as a sideline, buys in and resells supplies of the type covered in 37A(3). An example might be a hotelier who offers as an optional extra a facility for car-hire. In practice it would be better for the hotelier to act as an agent for the car hire firm rather than to buy in and resupply himself but it might nevertheless be possible for Customs to consider a special dispensation for incidental supplies of that type whose value in relation to total turnover is quite small. This is something on which Customs would like to have further discussions with the trade before deciding whether such a dispensation should definitely be made and if so in what form.

d. The services affected by the scheme should be specified in the regulations. As I said in the Standing Committee Debate, Customs and Excise are well aware of the need to spell out more precisely the types of goods and services that are to be covered by the margin scheme and which are for the direct benefit of the traveller as opposed to those services which are part of a tour operator's overheads and which are of only incidental benefit to travellers. They will be making this distinction clear in the VAT leaflet which will be issued pursuant to the Treasury Order.

6. This brings me to the point that is clearly worrying you the most, the inability of a registered trader, who is a customer to a tour operator, to recover any input VAT in respect of a supply under the scheme. Your remedy for this is at point b. in paragraph 13 where you state that supplies to entrepreneurs should be taxed under the normal rules as in Germany. The problem here is twofold. How do we justify such a course under Article 26 of the Directive? (Customs are certainly not aware of how the Germans do.) Any input tax deduction by tour operators is prevented by Article 26.4. If 26.4 was intended to apply to supplies only for non-business use, it would have said so. Secondly even if it were right to read into the Article something that is not apparently permissible, we do not want to risk upsetting the workings of the scheme for what you admit to be very much a minority problem. As you say in paragraph 4 of your letter, the majority of businesses wanting travel or hotel accommodation services go either direct to the likes of BA or Trust House Forte or they use the services of travel agents. When the scheme is in force they will still be able to do that and get tax invoices and take input tax credits in the normal way. The minority of specialist tour operators specialising in supplying the needs of businesses for conferences, exhibitions and training courses will have the opportunity of switching to an agency basis so that their clients' rights to input tax deduction are preserved.

7. Nevertheless, we are prepared to have another look at this problem to see if we can meet the substance of the complaints that have been made without:

a. unduly complicating the scheme and

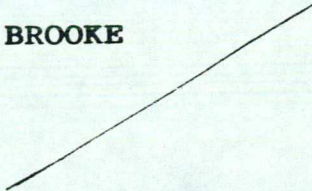
b. inviting renewed Commission action against us in the European Court for being in breach of the Sixth Directive.

8. On the matter of further consultations, Customs are very willing to see all representative bodies which feel they have points they want to make. Such consultation would include access to drafts of the Treasury Order and VAT leaflet when they are sufficiently far advanced in the drafting process. I suggest it might be useful if you or someone in the IoD got in touch with Mr J W Tracey of Customs and Excise, VAT Administration (01-382 5369) to arrange an early discussion. On the point in your penultimate paragraph, it is important for the legislation including the Treasury Order to be in place at the earliest stage possible so that tour operators can plan on a firm basis if our commitment to the effective date of 1 April 1988 is to be met.

Yours sincerely

Peter Brooke

PETER BROOKE





THE INSTITUTE OF TAXATION

12 UPPER BELGRAVE STREET LONDON SW1X 8BB

01-235 8847

Secretary Ronald J Ison LLB FTII Solicitor

28

14 May 1987

The Rt. Hon. John MacGregor, OBE, MP,
Chief Secretary to the Treasury,
Treasury Chambers,
Parliament Street,
London SW1P 3AG.

CHIEF SECRETARY
REC. 13 MAY 1987
MR J Reed IR.
TO CX FST MST EST
Mr Butler
Mr Scholar Miss Sinclair
Miss C Evans Mr Cropper
Mr Tyrie Mr Ron Goobey

Dear John,

FINANCE BILL, 1987, CLAUSE 40

Thank you for your letter of 12 May.

We welcome the decision to exclude Clause 40 from the shortened Finance Bill and we will now look forward to having the opportunity to discuss these complex matters in due course with the Revenue.

Taxes Management Act, Section 50(5)

I am, of course, aware that the Keith Committee recommendations on rights of audience and professional privilege were not among those indicated for priority consideration. In my letter to the Lord Chancellor I explained our concern for an amendment to S.50(5) to be made to the Finance Bill. For your further information, a number of our ATII members, who are not also either qualified accountants or solicitors, are working together either in partnership or as sole practitioners and are offering taxation consultancy and compliance services. I understand from them that smaller firms of accountants practising within their areas are often happy to refer their more complex client company tax problems to them because naturally, they have no fear of losing an audit. In such circumstances, it is clearly anomalous that our members should not have the right of audience before the Commissioners.

My colleagues and I were grateful to you for giving up your time to be with us at our Finance Bill Seminar and for the address which you gave to our members.

*Best wishes
Yours sincerely,
Robin*

Robin Ivison, President.



cc PS/bhancellor

Mr Scholar

Miss Sinclair

Mr Brooker

Mr Ross Goobey

PS/cae

Mr Jefferson Smith-cae

PWP

Treasury Chambers, Parliament Street, SW1P 3AG

Tim Smith Esq MP
House of Commons
LONDON SW1A 0AA

15 May 1987

Dear Tim,

During the Standing Committee debate on Clause 15 of the Finance Bill on 7 May, you referred to a number of amendments to the Clause which John Watts had put down. The amendments were not selected; but I offered to write to you and John to explain why I would have advised the Committee to reject them if they had been debated.

The first amendment was designed to remove the discretion which the Clause gives the Commissioners to refuse relief from tax if they are not satisfied that the assets were acquired by the transferor more than three years before the date of transfer. This discretion is intended as a safeguard against the use of the transfer of going concern procedures as a tax avoidance device. In exercising the discretion, the Commissioners will normally accept ordinary commercial documentation as sufficient evidence and the requirement is in no way onerous for businesses. Removal of the discretion would increase the likelihood of complex litigation on whether or not particular commercial records constituted reasonable evidence to support a claim to relief and this could lead to uncertainty in the application of the Clause while the issue was being considered by the VAT Tribunal or the courts.

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Section 29(1) provides that any supply to a group member is to be treated as a supply to the representative member.

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I hope you will find this of some help: as I say, I would not have felt able to agree to the amendments if you had been successful in having them debated but perhaps on reflection you may accept that the Clause is satisfactory as it stands.

I am sending a copy of this letter to John Watts.

*J
Lumsden*

Pm

PETER BROOKE

SECRET-IN-CONFIDENCE



01-270 4520

FROM: B O DYER
DATE: 19 May 1987

1. Alex ✓
2. Cathy ✓
3. ~~12/6~~ ✓

MISS SINCLAIR - FP

Tommy
Hidden copy for inf. in case
the Chancellor raises this question
with you or Alex.

2 min 3.

19/5
RP

FINANCE BILL ((NO.2) ACT) : 1987/88 SESSION

You sought my comments on Peter Graham's letter* of 14 May (which, incidentally, I received this morning although your manuscript note was dated 14 May).

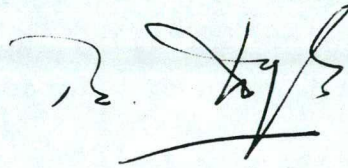
2. As always, Peter has set out the procedural position and associated problems very precisely and correctly. I think the key to getting the Bill on the Statute by the Summer recess depends largely on the number and speed with which the founding Resolutions can be dealt. Cabinet are aware of the Chancellor's announced intention to enact those provisions that had to be dropped as soon as possible in the new Parliament [CC(87)19th Conclusions]. You will also recall the Chancellor believes that Committee Stage will go through like a "dose of salts", as the Opposition will be demoralised if they are defeated for a third time in the forthcoming Election (30 April meeting).

3. Provided the founding Resolutions for the new Bill can be kept to a minimum, are tabled to appear on Monday 29 June and are taken on Thursday 2 July (with no ensuing Budget Debate), I believe the Bill, with the suspension of Standing Orders, could just pass through the Commons a day or two before the Summer recess. It would however mean all stages being taken in the Lords on the last or penultimate day.

4. Given that the 'world at large' will be already aware of the Bill's content (most, if not all, of it having been

* expressing some doubt as to the feasibility of getting the Bill on the Statute Book before the Summer recess.

published in the previous Parliament), it might be possible to press for Second Reading on say Thursday 9 July. Committee Stage could then span the next two weeks with Report and Third Reading in a single sitting the following week, say Tuesday 28 July. All this is extremely tight and difficult but not perhaps impossible. It is essentially a matter for the Business Managers, and it will need to be discussed with Murdo Maclean as soon as the result of the Election is known (if not before, on a contingent basis).

A handwritten signature in black ink, appearing to be 'B O Dyer', written in a cursive style.

B O DYER



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

21 May 1987

Peter Graham Esq
Office of the Parliamentary Counsel
36 Whitehall
LONDON SW1A 2AY

John Peter

I have seen your letter of 20 May to Carolyn Sinclair, saying that you will shortly be relinquishing your responsibility for Finance Bills.

Of the seven Finance Acts for which you have had overall responsibility, four have been mine, and I am most grateful both for the impeccable quality of your work and for the manner of your invaluable co-operation. You will be greatly missed, though I fully understand your reasons for wanting a change.

John Smith
Nigel Lawson

NIGEL LAWSON



pm

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

21 May 1987

Peter Graham Esq
Office of the Parliamentary Counsel
36 Whitehall
LONDON SW1A 2AY

John Peter

I have seen your letter of 20 May to Carolyn Sinclair, saying that you will shortly be relinquishing your responsibility for Finance Bills.

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John Smith
Nigel Lawson

NIGEL LAWSON

Please type
for signature

DRAFT LETTER TO:

Peter Graham Esq
Office of the Parliamentary Counsel
36 Whitehall
LONDON SW1A 2AY

~~Thanks
from
Nigel~~

I have seen your letter of 20 May to Carolyn Sinclair, saying that you will shortly be relinquishing your responsibility for Finance Bills.

Of the seven Finance Acts for which you have had overall responsibility, four have been mine, and I am most grateful for all the invaluable and untiring support you have given. Your contribution will be greatly missed, though I fully understand your reasons for wanting a change.

for
as the

~~the impeccable quality of your work
manner of your invaluable cooperation.~~

NIGEL LAWSON



**With the Compliments
of the Parliamentary Counsel**

Peter Graham

**Office of the Parliamentary Counsel
36 Whitehall London SW1A 2AY**

Telephone 01 210 Ext: 6609

Act

Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY

Telephone Direct line 01 210 6609
Switchboard 01 210

Miss C E C Sinclair
FP Division
H M Treasury
Parliament Street
SW1

Ch
Note to P Graham
transfer him to his
starting effect over to
years. AA

20 May 1987

You post.
H will be
greatly
missed
etc.

le of name!
not to.

FINANCE BILLS

This is to let you know that, with effect from 11 June, Christopher Jenkins will be taking over the responsibility in this Office for Finance Bills. This transfer will not affect the responsibility for individual clauses which will continue as at present. You probably know that Christopher's number is 210 6640.

The Finance Act 1987 is the seventh Finance Act for which I have had overall responsibility here and, I think, the fifteenth in which I have been involved: I am sure it is time for a change. My thanks to you and to others in the Treasury for their consideration of the somewhat arcane points which I have sometimes generated here. I am sure the same consideration will be extended to Christopher.

A copy of this letter goes to the PPS to the Chancellor, to the PS to each of the other Treasury Ministers and also to Brian Dyer. I have already written in similar terms to the Inland Revenue and Customs and Excise.

PETER GRAHAM



pur

Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY

Telephone Direct line 01 210 6609
Switchboard 01 210

✓

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

26th May 1987

The Chancellor,

FINANCE BILLS

Very many thanks for your kind letter about my work on Finance Bills. Your consideration in taking time to write at this stage in the run-up to the Election is particularly appreciated.

Yours sincerely
Peter Graham

PETER GRAHAM

9/271

FROM: A WILSON
DATE: 29 May 1987

PS/CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Butler
Mr Anson
Mr Judd
Mr Gilmore
Mr Burgner
Mr Scholar
Mr Turnbull

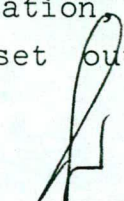
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Mr Mason
Mr Revolta
Miss Sinclair
Mr Bonney
Mr Waller
Mr Dyer
Mr Bradley
Mr Jenkins (T.Sol)
Mr Graham (Par. Counsel)
Mr Cropper
Mr Tyrie
Mr Ross Goobey

FEES AND CHARGES VIRES: FINANCE BILL

I have seen your minute of 15 May on my return to the office from leave and confirm that I will personally oversee the preparation of the necessary clauses for a post-Election Finance Bill. I will also keep pressure on Departments to make sure they input whatever is needed.

2. In view of doubts expressed in some quarters about the rectitude of taking power to set fees and charges on a basis which recoups losses arising through under-estimation of costs in a previous year, I should state clearly that I believe it is only practical and sensible to have a power which will allow costs to be recouped taking one year with another. It is impossible to estimate future costs sufficiently accurately to achieve an exact match with related fees and charges, and unless there is a power to adjust over and under recoveries experienced in one year through the level of fees and charges set for the next year, there will have to be frequent adjustments of charging rates which would be both expensive to Departments and irritating to the public. Such an approach should not be extended to include a power to adjust future charging rates to recover accumulated past deficits extending over several years or of a comparatively material amount. If this approach is reflected in the legislation, then we may usefully amend the statement of policy set out in the current Fees and Charges Guide.



A WILSON

CONFIDENTIAL



MR A WILSON

FROM: JILL RUTTER
 DATE: 15 MAY 1987

cc: *RS* Chancellor
 Financial Secretary
 Economic Secretary
 Minister of State
 Sir P Middleton
 Mr Butler
 Mr Anson
 Mr Judd
 Mr Gilmore
 Mr Burgner
 Mr Scholar
 Mr Turnbull
 Mr Mason
 Mr Revolta
 Miss Sinclair
 Mr Bonney
 Mr Waller
 Mr Dyer
 Mr K Bradley
 Mr Jenkins (T.Sol)
 Mr Graham (Par.Counsel)
 Mr Cropper
 Mr Tyrie
 Mr Ross Goobey

FEES AND CHARGES VIRES: FINANCE BILL

As you know the fees and charges vires clause was dropped in view of the Election.

2. We should be planning on the assumption that such a clause will be included in the post-Election Finance Bill. This is mentioned in Mr Felstead's minute of 12 May to Mr Bradley.

3. The Chief Secretary would be grateful if you could take a personal interest in ensuring that there are no further hitches in this.

JILL RUTTER
 Private Secretary