

PO-CH / NL / 0008  
PART G

**SECRET**

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PO -CH /NL/0008



PART G

1987 FINANCE BILL

PO -CH /NL/0008

PART G

SD's 25 years NAGIS 23/11/95.



pmf

Thanks

Ch.

Your questions below.

2. The attached print is the 2nd print.

The next print will be the proof - due on Weds/Thurs. of next week. It will be there that Clauses 24 + 30 will be amalgamated.

3. The length of the Bill, c. 170 big pages, compared with previous Bills is follows:

1984	167 big pages (223 small)
1985	149 big pages (199 small)
1986	150 big pages (200 small)
1987	183 big pages.

25  
30/3



Prop  
OK

Ch.

## Finance Bill: Inheritance Tax

I have consulted Party Counsel about removing the table in Clause 133, and replacing it with a reference in the body of the text.

2. It turns out that this is rather more complicated than it appears.

(a) there are two rates of IHT, i.e. 40 per cent and nil. So the reference in the text requires careful drafting;

(b) there is a minimum of 16 consequential amendments

necessary to the rest of the Bill.

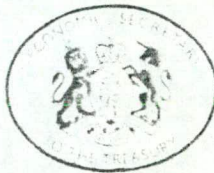
3. Party Counsel would in fact need more time than is available to check through the Bill for any further amendments which might be necessary. Drafting will also take some time. He is already working flat out on some urgent stuff already required for Report. All in all, it doesn't seem practicable to do anything on IHT in the time.

4. I have asked that this be dealt with in next year's Bill.

26  
12/7

Finance Bill  
1988  
Part. 1 G. G.

C O N F I D E N T I A L


 FROM: PETER BARNES  
 DATE: 20 November 1987

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MR PAINTER - IR

 cc PS/Chancellor  
 PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 Sir P Middleton  
 Mr Cassell  
 Mr Scholar  
 Miss Sinclair  
 Mr Williams  
 Ms Leahy  
 Ms Evans  
 Mr Jenkins OPC  
  
 Mr Johns - IR  
 Mrs Hubbard - IR  
 Miss Hill - IR  
 PS/IR
**FINANCE BILL 1988: OIL STARTERS**

The Economic Secretary was most grateful to you, Mr Johns, Mrs Hubbard and Miss Hill for coming to discuss his oil starters with him on Thursday 19 November.

**Starter 350: PRT: Expenditure Claims during safeguard periods**

2. You said that the main arguments on this starter were set out in Mrs Hubbard's minute of 13 November. You thought that Option C (not legislating, and deferring assessments in both the oil allowance and future safeguard cases) was the least attractive because it carried the greatest risk of successful judicial review, and in any case, the deferral of assessment would be only partly effective. There was, however, less to choose between Option A (legislating in 1988) and Option B (not legislating, and deferring assessments on oil allowance cases only). You said that on present estimates the cost of not deferring safeguard assessments was likely to be less than £3 million a year in both 1988/89 and 1989/90, but that this estimate was extremely sensitive to the oil price. You also said that if the Economic Secretary decided not to defer safeguard assessments and the Revenue made a statement of practice to that effect, then

C O N F I D E N T I A L

it would be necessary to legislate if the Government wished to defer safeguard assessments in the future; otherwise it seemed inescapable that the Revenue would be put in a position in which it could be represented as acting discriminatorily. The Economic Secretary said that, having considered the alternatives, he would prefer not to legislate in 1988 because of the pressures on Finance Bill space. He said that he would like to announce by means of an arranged PQ that the Government had decided in current circumstances not to legislate. If the Statement of Practice could be prepared in time, he would also like to make a reference to this in his speech in Aberdeen.

Starter 351: PRT : Variations in assessments or determinations.

3. You said a submission would be sent up to the Economic Secretary on this subject on Friday. The submission was being made because of legal advice that the Revenue's powers to amend assessments and determination of losses might be legally flawed. Although the sums of money at stake were potentially large, there were no signs as yet that companies were attempting to exploit this loophole, and any attempts to exploit the loophole could be met by an announcement followed up by legislation. You thought that this starter was probably not a good candidate for Finance Bill space this year.

4. The Economic Secretary said that his inclination was to drop this starter, but that he would await the submission before taking a final decision.

Starter 352: PRT Expenditure Relief - Travelling Arrangements

5. This starter had been dropped (my minute of 26 October).

Starter 353: Oil Licence Gains: Work upon programme farmouts

6. The Economic Secretary had already provisionally agreed that work on this starter should go ahead (my minute of 2 November). You would be putting up a further submission when you had received the representations from the industry that the CGT exemption should be



extended to oil licence swaps.

Starter 354: North Sea Fiscal Regime Review

7. You explained that this was an annual exercise. The Working Party would be aiming to present proposals to the Steering Group on which you sat in early December, and the Steering Group would be submitting recommendations to Ministers as soon as possible after that. The likelihood was that any package for the Finance Bill would be short, both because the existing regime was seen to be working effectively, and because of pressure on Finance Bill space.

8. The main subjects being considered were:-

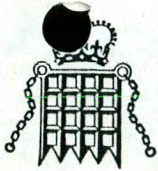
- (i) Incremental investment. The Working Party had been trying to establish how many companies had projects which would be viable before tax but which were not after tax, in order to assess the case for any fiscal adjustments. But the main recommendations for change at this stage were likely to concern the determination of a field, and consequently would fall to the Department of Energy.
- (ii) Southern Basin. It was thought that one or two projects might be at risk under the present regime. The Working Group were considering the possibility of reducing the oil allowance further in return for abolishing royalties, thus resulting in a more profit-oriented tax system.
- (iii) On-shore Regime. You said that the question was whether exploration and appraisal relief for on-shore work should be restored. The issue was the extent to which it was useful to retain what in some circumstances appeared a subsidy on-shore, given that non-tax considerations including environmental pressures, rather than fiscal ones, seemed to be the main obstacles to on-shore work.

Nomination Scheme

9. You said that a submission had been sent to the Economic Secretary recording that the industry was not happy with the way nomination scheme worked. As far as you could see, this was the only possibility of a late oil starter.

FB

P D P BARNES  
Private Secretary



bfmp 3/11

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

**CONFIDENTIAL**

**FROM: PHILIP NASH**  
**DATE: 20 NOVEMBER 1987**

**ECONOMIC SECRETARY**

PS/Chancellor of the  
Exchequer  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Mr Scholar  
Miss Sinclair  
Mr Michie  
Parliamentary Counsel

**FINANCE BILL 1988 : STARTER NO 64**

1. This paper explains the background and purpose of Starter No 64.
2. Under the Common Agricultural Policy many goods are entitled to refunds at export to a non-EC country or on shipment as stores. To facilitate export trade, provision is made in Community Regulations for the payment of export refund on deposit in warehouse under customs control of goods intended for export or victualling in advance of final exportation. Such warehouses are known as pre-financing or victualling warehouses respectively.
3. Part VIII of the Customs and Excise Act 1979 empowers the Commissioners to approve and control warehouses for certain specified purposes which do not at present include pre-financing or victualling. Warehouses currently being used for these purposes lack formal approval and we are unable to require warehouse-keepers to maintain records or conduct stocktaking. Equally, we lack the power to proceed against a warehouse-keeper in the event of fraud.
4. Although we have not encountered serious problems as yet, we are aware that this area is one in which Community auditors are taking an interest. The European Court of Auditors is conducting an audit of export refunds early next year. Our present lack of control powers could lay the UK open to criticism for failing to take steps properly to control Community expenditure on the CAP. In the event of

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**Internal distribution:** Mr Knox  
Solicitor  
Mr Allen  
Mr Vaughan

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a serious fraud which could be attributed to our lack of legal power to exercise control there is a real risk that any export refund payments which had been made would be disallowed and not met by EAGGF, and would fall to the Exchequer to make good.

5. We seek by the starter to extend the existing customs warehousing legislation to cover approval and control of pre-financing and victualling warehouses.



PHILIP NASH



FROM: J M G TAYLOR  
DATE: 23 November 1987

*Handwritten signature*

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Mr Monck  
Mr Scholar  
Miss Sinclair  
Mr Cropper  
Mr Tyrie  
  
Mr Jenkins - OPC  
PS/IR

**FINANCE BILL 1988: STARTERS 211 AND 212  
BUSINESS ENTERTAINING AND GIFTS**

The Chancellor has seen your minute of 17 November. He agrees with the Financial Secretary's recommendations.

*Handwritten signature*

J M G TAYLOR

MR MCGUIGAN - C&E



FROM: P D P BARNES  
DATE: 23 November 1987

cc PS/Chancellor <sup>2</sup>  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Mr Cassell  
Mr Scholar  
Miss Sinclair  
Mr Michie  
Miss Evans  
Mr Jenkins - Parly Counsel

Mr Knox - C&E  
Mr Jefferson-Smith - C&E  
Mr Allen - C&E

STARTER NO.10 : OIL DUTIES RELIEFS

The Economic Secretary was grateful for your submission of 20 November.

2. The Economic Secretary thinks that the issue discussed in your submission, while complex, are not urgent. On this basis, he would like to drop this starter from the 1988 Finance Bill.

PB

P D P BARNES  
Private Secretary



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

M

**CONFIDENTIAL**

**FROM: PHILIP NASH**

**DATE: 24 NOVEMBER 1987**

**ECONOMIC SECRETARY**

cc PS/Chancellor of the  
Exchequer  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Mr Scholar  
Miss Sinclair  
Mr Michie  
Parliamentary Counsel

**FINANCE BILL 1988 : STARTER NO 64**

1. You asked for additional background briefing on Starter No 64.
2. Under the Common Agricultural Policy many goods attract an export refund payment on export from the Community to a non-EC country. The purpose of the refund is to enable exporters to compete on world markets by adjusting for the difference between EC and world market prices. The refunds are financed by EAGGF and paid by IBAP on receipt from customs of proof of satisfactory export.
3. As a facility to the export trade EC legislation makes provision for the payment of export refund in certain circumstances in advance of exportation. This Starter is concerned with two such circumstances: the payment of export refund when goods are deposited in a prefinance warehouse for eventual exportation; and the deposit in a victualling warehouse of goods intended for supply as victualling stores to sea-going vessels or aircraft on international routes.
4. Prefinance warehouses are provided for in Regulation (EEC) No 565/80. Under this Regulation goods may be deposited for a maximum period which is

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**Internal distribution:** Mr Knox  
Solicitor  
Mr Allen  
Mr Vaughan

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normally 6 months. Before deposit a financial guarantee to cover the amount of export refund plus 20% has to be given to IBAP. If the goods are not removed from warehouse for exportation within the time limit penalties are payable to IBAP under the Regulation. Once removed for exportation the goods must leave the geographical territory of the Community within 60 days.

5. Victualling warehouses are provided for in Regulation (EEC) No 2730/79. The arrangements provide for the deposit in warehouse of goods intended for supply as stores for sea-going vessels or aircraft serving on international, including intra-Community routes. There is no time limit on how long the goods may remain in warehouse and no financial guarantee is required. Removal from warehouse must be for transfer to another victualling warehouse in the Community or for supply as stores to an entitled vessel or aircraft. Shipment may take place in the UK; in another member state; or in a non-EC country. Under the Regulation penalties are payable to the IBAP for failure to supply the goods to an entitled destination.

6. Export refund amounting to about £11 million and £1.5 million per year is paid under the prefinance and victualling arrangements respectively.

7. We have encountered cases of supply from a victualling warehouse to a non-entitled destination. One involved some £7,000 refund and was settled on payment of a compound penalty of £7,000. Another involved the diversion of goods by claiming exportation to non-existent ships and was settled on payment of a compound penalty of £350,000. In both cases the warehousekeeper paid a penalty to IBAP under the terms of the Community Regulation. Under the prefinance warehouse scheme we have settled two cases, one involving £140,000 export refund and a compound penalty of £13,500; the other £6,800 export refund and a compound penalty of £1,600. However, in all these cases we were only able to achieve a settlement because the trader had infringed other customs provisions, for example by making a false declaration. The most worrying aspect is that we are currently encountering opposition from the trade to a request for a coldstore warehousekeeper to conduct a stocktaking. This is an area of risk since failure to reconcile stock could conceal diversion to the UK home market of goods on which export refund has been paid. We fear that without the power to require stocktaking and record production we are unable to exercise control and satisfy ourselves that irregularities are not taking place.



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7. Article 26.1 of Regulation (EEC) No 2730/79 specifically requires member states particularly to approve warehouses as victualling warehouses. Article 5 of Regulation (EEC) No 565/80 provides for the deposit in a customs warehouse of goods intended for exportation under prefinancing.

8. Our problem stems from the closely drawn provisions of section 92 of the Customs and Excise Management Act 1979 which specifies the purposes for which warehouses may be approved. It does not provide cover for approval as prefinance or victualling warehouses.

9. The risk is that Community auditors could criticise our inability to approve warehouses for prefinancing or victualling purposes, with the consequential absence of powers to regulate for the production of stock and the maintenance and production of associated records.

*J. Vaughan*

pp. **PHILIP NASH**

## C O N F I D E N T I A L



FROM: G R WESTHEAD  
DATE: 25 November 1987

MR WILMOTT - C&E

*mp*

cc **PS/Chancellor**  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Sir P Middleton  
Mr Cassell  
Mr Culpin  
Miss Sinclair  
Mr Michie  
Miss Evans  
Miss Burnhams

Mr Knox - C&E  
Mr Jefferson-Smith - C&E  
Mr Allen - C&E  
Mr Nash - C&E  
Mr Trevett - C&E  
PS/C&E

1988 FINANCE BILL STARTER NOS. 62, 63 (CUSTOMS KEITH)

The Economic Secretary has now seen your submission of 17 September to the Paymaster General which made two recommendations for Finance Bill legislation which have become Starters 62 and 63 - the penalty for imprisonment on fraud cases and the time limits for prosecution on Customs' offences.

2. The Economic Secretary is content for these starters to proceed and for Parliamentary Counsel to draft the necessary clauses on a provisional basis.

*Guy Westhead*

GUY WESTHEAD  
Assistant Private Secretary



# Inland Revenue

CONFIDENTIAL

*Handwritten signature*  
Policy Division  
Somerset House

From: M A KEITH  
Ext: 6287  
Date: 27 November 1987

1. MR ~~McGIVERN~~ *See note at end. MKF 27/11*
2. FINANCIAL SECRETARY

FINANCE BILL 1988: STARTER NO 206  
CAPITAL ALLOWANCES: FIRE SAFETY, SAFETY AT SPORTS GROUNDS AND  
QUARANTINE PREMISES

1. This Starter originated when we were looking at the consequences for tax legislation of the Fire Safety and Safety of Places of Sport Act 1987 (the 1987 Act) which changes the way safety rules are to be applied in a number of ways.
2. Under existing law (Section 17 FA 1974 and Section 15

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cc - **Principal Private Secretary**  
PS/Chief Secretary  
PS/Paymaster General  
PS/Economic Secretary  
Sir P Middleton  
Mr Monck  
Mr Burgner  
Miss Sinclair  
Mr Michie  
Mr Cropper  
Mr Call  
Mr Tyrie  
Mr Jenkins, Parliamentary Counsel

Mr Painter  
Mr McGivern  
Mr Lawrance  
Mr Beighton  
Mr Pearson  
Mr Boucher  
Mr Bates  
Mrs Morrison  
Mr Pascoe  
Mr Keith  
Mr D Shaw (CD)  
Mr Elmer  
PS/IR

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FA 1975) relief is given, at 25% per annum reducing balance basis, on certain capital expenditure incurred to comply with directions from fire authorities. Similarly relief is given (under Section 49 F(No.2)A 1975), also at 25% reducing balance basis, on capital expenditure incurred to comply with local authority safety requirements for certain sports stadia. Changes made in the 1987 Act - when they come into force - mean that these tax provisions will no longer work satisfactorily in all respects and that action is needed to meet the changed circumstances, at least in relation to sports grounds.

3. We last reported on these topics on 10 November 1986 at which time Ministers envisaged that the existing legislation would be updated without either widening or narrowing its general scope (Mr Williams' note of 21 November 1986).

4. The 1987 Act received Royal Assent on 15 May 1987 and is to be brought into operation in four phases. The first two - and especially the first - have implications for existing capital allowance legislation. Phase 1 becomes operational on 1 January 1988 while on present plans the second phase will come into force in October 1988.

5. The existing reliefs for capital expenditure on safety at sports grounds and on fire safety and the possible courses of action are discussed in detail in Annexes A and B to this note.

6. Our review of these special incentive reliefs led to an examination of other reliefs of a broadly similar nature. From this, the special relief for capital expenditure on certain quarantine premises (Section 71 FA 1980) has emerged as a further area where we think you will wish to consider the case for change. The background to the existing relief and the various options for change in this area are discussed in Annex C.

Summary of tax options

Safety at sports grounds

7. If the existing relief for safety expenditure at sports grounds is to remain available, broadly on present lines, capital allowance legislation will need to be amended to take account of the extension of safety certificate requirements to designated sports grounds brought about by the 1987 Act (see Annex A paras 1-3). The Exchequer cost involved is estimated to be negligible.

8. The change in question comes into force on 1 January 1988 (as part of phase 1 of the 1987 Act) by way of commencement order (SI 1987 No.1762). Given the background of the Bradford disaster and of the Popplewell recommendation, we assume that Ministers will not wish this special relief to become inoperative. If we are correct in that assumption, the necessary Finance Bill amendment will have to apply to expenditure incurred on and after that date. In these circumstances, you may feel that it would be helpful if a statement of the intention to legislate was made before 1 January 1988, possibly by way of arranged PQ. If so, we will draft an appropriate Question and Answer for your approval.

- "Regulated stands"

9. There is then the question whether relief should be further extended to cover expenditure on safety work on "regulated stands" (stands providing covered accommodation for 500 or more spectators at undesignated sports grounds). There is obvious logic in the inclusion of such stands within the safety requirements of the Safety at Sports Grounds Act 1975. Accordingly, a decision not to extend relief as the Home Office have proposed (Annex A, para 4) would be likely to attract criticism and be hard to defend. The Exchequer cost of such an extension is difficult to estimate but it is thought that it could only be very slight - probably no more than £m3 overall.

10. Although that part of the 1987 Act relating to "regulated stands" is not expected to come into force until October 1988 at the earliest, the close link between the extension of relief to designated sports grounds (para 8) and the proposed further extension to "regulated stands" (para 9) suggests that it would be sensible to make a decision on both at the same time.

11. In the event of a decision in favour of extending relief to regulated stands, there would then be a choice between legislating for that option in advance (i.e. in 1988) or leaving it over as a possible starter for 1989 to be picked up in the event that the necessary commencement order had been made. You may prefer the greater certainty offered by deferral in that there could then be no question of having legislated unnecessarily.

#### Fire Safety

12. The existing relief contains several anomalies and its original purpose has largely been achieved now that over 90% of eligible properties have been certificated (Annex B, para 15). Repeal is therefore one option but there are other possibilities to be considered.

13. The various options we think you will wish to consider are:-

(i) to repeal the existing relief, subject to providing a suitable transitional period for traders carrying out safety certificate work on the residue of uncertificated premises;

(ii) allow relief to continue on existing lines, adapting current legislation to refer to prohibition notices (i.e. to take account of the fact that in future, prohibition will be a matter for the fire authority itself and will not require a Court order);

(iii) do nothing.

14. Despite the strength of the arguments for repeal of this inequity-ridden relief (option (i)) you may well feel that that would be a difficult course to adopt against the background of recent tragic events at Kings Cross. That being so, the choice would lie between adapting the existing relief so as to allow it to run on on existing lines (option (ii)) or doing nothing option (iii)).

15. Option (ii) seems clearly the least satisfactory course. It would perpetuate all the existing inequities while the amendment necessary to bring in work done in relation to a prohibition notice would inevitably draw the spotlight of attention to the whole question of relief for fire safety expenditure.

16. To do nothing would cancel out what is arguably the worst feature of the existing system (relief for the neglectful owner who takes no safety measures until he is forced to (Annex B para 12) since relief would no longer be available on and after 1 January 1988 where capital expenditure had to be incurred because a fire authority had served a prohibition notice. Relief for expenditure incurred in order to obtain a fire certificate would then continue in force for owners or occupiers of the rump of currently uncertificated premises, provided they did not come within the new "low risk" category (Annex B, para 20).

17. If you decided to leave things as they are (option (iii)) there could be criticism from owners or occupiers of premises (a) within the new "low risk" category or (b) subject to a prohibition notice served by a fire authority but criticism from those quarters would be unlikely to carry much weight. Overall, therefore, you may feel that the balance of argument points to doing nothing.

Quarantine premises

18. The present relief discriminates in favour of a minority of owners (about one-third of the total) and the capital works at which it was directed will have been completed long since.

There are three options:-

(i) withdraw the special relief with effect from Budget Day 1988 with protection for pre-contracted expenditure;

(ii) extend the existing relief to all quarantine premises, whenever constructed;

(iii) do nothing.

19. Option (iii) has the obvious disadvantage that it perpetuates the discrimination in favour of owners of pre-1972 quarantine premises at a time when new regulations are about to be brought in by MAFF. Neither of the other options suffers from that defect but option (i) (withdrawal of relief) as well as putting both classes of owner on an equal footing gets rid of yet another incentive relief whose continued existence is anomalous.

Conclusion

20. The various questions for decision are as follows:-

Safety at Sports Grounds

(a) is relief to be extended to capital expenditure on designated sports grounds?

(b) if the answer to (a) is 'Yes' do you wish to give advance notice of the decision?

(c) is relief to be further extended to regulated stands?



- (d) if the answer to (b) is 'Yes' should this be viewed as a possible starter for 1989 or dealt with in Finance Bill 1988.

Fire safety


- (e) is relief to be withdrawn (option i),  
adapted so as to run on broadly as at present (option ii),  
or should existing legislation be left as it is  
(option iii)?

Quarantine premises

- (f) is the relief to be withdrawn (option i),  
extended to cover all owners and not just the present  
minority (option ii),  
left as it is (option iii)?

21. The Home Office and MAFF will be keen to know what Treasury Ministers decide to do in their particular areas of interest. We shall be glad to know therefore that you are content that officials should be told of those decisions in confidence.

22. We are at your disposal for discussion on any of the topics covered in this submission.

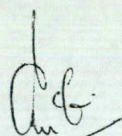


M A KEITH

Financial Secretary

As you recognised at the Chancellor's meeting on the minor starters, we need to bring the tax legislation into line with the new Home Office legislation to enable the tax reliefs for expenditure on safety at sports grounds to work properly. And you may feel that, in the light of the disaster at Bradford and in keeping with the new safety requirements, it would be difficult not to extend the relief to, in effect, smaller stands at the smaller grounds.

But the existing relief for fire safety expenditure on certain business premises is a little more difficult. The system is inequitable and arguably produces the wrong results. There is, in principle, a good case for withdrawing the relief after a short transitional period (and the Home Office recognise this), but the tragic events at Kings Cross must rule this out. We therefore suggest you leave this unchanged which, because of the way the new Home Office legislation works, will result in some relatively minor narrowing of the scope of the relief which can easily be defended.



E MCGIVERN

Safety at Sports Grounds

1. Existing capital allowance legislation (Section 49 F(No.2)A 1975) provides that, if tax relief is not otherwise available, a trader may claim capital allowances at the machinery and plant rate (25% of the reducing balance) for capital expenditure incurred in complying with the safety certificate requirements for designated stadia under the provisions of the Safety at Sports Ground Act 1975 (SSGA).

2. The Fire Safety and Safety of Places of Sport Act 1987 (the 1987 Act) implements a recommendation of the Final Report of the Popplewell Enquiry arising out of the Bradford disaster and amends the SSGA so that the safety certificate requirements are now to apply to all sports grounds designated by the Secretary of State as requiring a full safety certificate. That change comes into effect on 1 January 1988.

3. Since the existing tax relief is given only for a trader's costs incurred in complying with safety certificate requirements in respect of designated stadia, a suitable amendment will be needed if equivalent relief is to apply over the wider field of designated sports grounds.

"Regulated Stands"

4. The 1987 Act also provides for a further extension of the safety certificate requirements to "regulated stands". These are stands at undesignated sports grounds which provide covered accommodation for 500 or more spectators. That extension is not expected to come into force until October 1988 but the Home Office have asked that, when it is in operation, the existing relief be further extended to cover a trader's capital expenditure on such a stand incurred in order to comply with safety certificate requirements.

5. They estimate that there are about 400 sports grounds with at least one stand liable to be certificated. Expenditure on safety work is likely to range from a few hundred pounds up to, say, £25,000 at grounds which attract larger crowds. But many grounds will not be run on a commercial basis so as to be chargeable to tax.

Cost

6. The Exchequer costs associated with an extension of relief to (a) designated sports grounds and (b) regulated stands would be negligible.

FIRE SAFETY

1. Special tax relief (25% per annum on a reducing balance basis) is available for capital expenditure incurred by traders (and landlords whose tenants are trading) where that expenditure is incurred in taking steps

(i) specified by a fire authority under the Fire Precautions Act 1971 (the 1971 Act) following an application for a fire certificate in respect of trade premises (Section 17 FA 1974 as extended by Section 15 FA 1975);

(ii) to enable trade premises, subject to a Court Order under the 1971 Act prohibiting or restricting their use, to be used without contravention of the Order (Section 15 FA 1975).

2. In general, the special relief applies only where ordinary capital allowances e.g. for expenditure on constructing industrial buildings, are not available. Where it does apply, it is only the cost of structural work on such things as fire proof doors and fire escapes which is covered. That is because a trader's expenditure on fire fighting equipment (extinguishers, fire alarms, sprinkler systems etc) attracts the normal plant and machinery allowances.

3. When the special tax relief for fire safety expenditure not otherwise eligible for relief was introduced in 1974 it was intended primarily for the assistance of hotel and boarding house proprietors who were compelled to incur expenditure on existing premises under the 1971 Act in compliance with fire certification requirements but in fact it goes wider.

4. Various classes of occupancy or property can be made subject to the fire certification requirements in the 1971 Act

but only when designated for the purpose by the Secretary of State.

5. The classes of occupancy so far designated are

Hotels and boarding houses

Factories, offices, shops and railway premises

but designation (and hence the special tax relief) does not extend to buildings within those classes which, because of their size and layout or because of the small numbers of persons likely to be present, are categorised as "low risk". A statutory duty to provide adequate means of escape in case of fire was however imposed on owners or occupiers of certain of these "low risk" premises.

6. Other categories of trade building - in particular certain places of entertainment such as theatres - are not covered by the 1971 Act. Moreover, the Home Office advise us that it is most unlikely that any further classes of occupancy within the scope of that Act will be designated.

#### Changes made by 1987 Act

7. One way in which the 1987 Act changes the rules is by superimposing on the existing framework an additional category of "low risk" premises. In general terms, when the new provisions are fully operational, owners or occupiers of premises in the new "low" risk category will have to comply with a statutory code of practice but will not normally be routinely inspected or get a piece of paper from the fire authority telling them what to do. Owners of premises within the existing "low risk" categories will be subject to the same code. There will be a statutory duty in relation to all premises which are exempt from the certification requirement that they should be provided with reasonable means of escape in case of fire.

8. As the tax law now stands, the special relief for fire certificate expenditure will cease to be available to owners or occupiers of the new "low risk" category because they will no longer be subject to the fire certificate procedure (on which the special relief depends) which would have applied to them under the earlier Home Office legislation; hence any expenditure on safety measures they might incur will be on the same footing as expenditure on premises within the existing "low risk" categories.

9. A further change in the rules concerns prohibition and/or restriction of the use of premises considered to present an excessive risk to persons in case of fire. Fire authorities will no longer need to apply to the Courts for a prohibition order; instead, the fire authority will itself serve a prohibition notice. Existing tax law gives relief only for expenditure incurred as a result of the making of a Court Order.

#### Inequities of the present system

10. A notable inequity of present arrangements is that traders within classes of occupancy wholly outside the 1971 Act are excluded from the benefit of the special relief for safety expenditure (see para 6).

11. And there are further inequities within the designated classes of occupancy as follows :-

- i premises already categorised as "low risk" under the 1971 Act are excluded from the fire certificate procedures and so there is no relief for structural expenditure unless the premises come within the normal capital allowances code e.g. as industrial buildings. Thus the rate of relief for "low risk" premises is either nil or 4% straight line;

- ii owners or occupiers of hotels and boarding houses subject to certification invariably get relief at the 25% rate for their capital outlay on fire certificate work;
- iii owners or occupiers of other certificatable premises get the 25% rate only where the expenditure does not qualify for relief under the normal capital allowance code. If it does so qualify, the rate of relief is 4% straight line.

12. The 1975 extension of the special relief, which provides that it should be given for expenditure incurred on premises subject to a prohibition order, also produces rather odd results. Since prohibition orders can be made on premises for use within one of the classes covered by the 1971 Act (whether designated or not), owners or occupiers of certain categories of commercial building get relief for work they are forced to undertake (by the prohibition order) to remedy their neglect when, in other circumstances, the capital allowances system would provide no relief of any kind.

13. Overall, the special relief, although designed to provide an incentive to the carrying out of fire precautions work, may have tended in the opposite direction. That is because the conscientious owner gets no relief - other than normal capital allowances where these are available - for expenditure he incurs voluntarily in advance of his application for a fire certificate. There is therefore an incentive to delay expenditure until it is formally required by the fire authority. And the neglectful owner in undesignated premises can get relief by neglecting to take proper precautions (and putting at risk the lives of persons using his property) until he is served with a prohibition order.



## The tax options

14. Adaptation of existing legislation to accommodate the changes being brought about by the 1987 Act so as to provide continuity of relief for expenditure on fire safety on existing lines would be a simple matter. But consultation with Home Office officials has revealed a further option. It appears that the capital allowance legislation has now very largely achieved its purpose so that, if suitable transitional provision is made, it could be a candidate for repeal.

15. The application of planning requirements and building regulations to new buildings and extensions of existing premises means that the fire certificate procedures and hence the special tax relief are in general applicable only to existing properties. There is therefore a finite number of certificatable premises and the Home Office tell us that 90% of these premises have already been inspected for the purposes of certification, this proportion rising to 94% in the case of hotels and boarding houses.

## The case for repeal

16. In the circumstances described in paras 10-15, there seems in principle to be a strong case for

- (a) discontinuing the existing relief for fire certification expenditure after a brief transitional period of, say, 2 years during which traders would continue to qualify for relief. That relief could be confined to expenditure which a trader who had applied for a fire certificate before 31 March 1989 had incurred or contracted to incur before 31 March 1990. This might well act as a spur to owners or occupiers of the balance of uncertificated premises to bring their premises up to standard;

- (b) allowing the relief for expenditure incurred pursuant to a prohibition order to lapse.

17. If you were attracted to that option - to which Home Office officials have signified acquiescence - it could be represented as another, albeit small, measure aimed at simplifying the tax system while at the same time removing a number of manifest inequities. It would of course represent a useful piece of tidying up at the fringes ahead of the proposed consolidation of capital allowance legislation.

Continuation of relief on the present basis

18. An alternative course is that envisaged in our earlier submissions - a continuation of the present scheme of relief broadly on existing lines.

19. At its simplest, the only amendment needed to adapt the existing legislation to the 1987 Act concerns relief given where premises are subject to a prohibition order. The fact that the 1987 Act provides that Court Orders will no longer be required in such cases and that a fire authority itself will be able to issue a prohibition notice would need to be reflected in our legislation which provides relief consequent on the making of a Court Order. Relief for expenditure incurred in relation to an application for a fire certificate would continue as at present.

20. That would represent some narrowing of the present scope of relief because of the introduction by the 1987 Act of new categories of exempt "low risk" premises. Owners or occupiers of such premises will not need a fire certificate and hence will fall outside the scope of the special relief as it now stands. But, as noted in paragraph 8, the effect will be to put them on the same footing as owners or occupiers of premises within the existing "low risk" categories, both being subject to the same duty to provide reasonable means of escape in case of fire. Clearly, it would be inequitable to give relief to one class of owner and not the other. Moreover, it

would be reasonable to expect that, in the majority of such cases, the costs of providing means of escape would be small.

#### Do nothing

21. A further option would be to do nothing. The result would be that the special tax relief would not be available in future for owners or occupiers of premises who had so neglected them that a prohibition notice was served by the fire authorities. That is because existing legislation provides relief only where a prohibition order has been made by a Court under the 1971 Act as it applies until 31 December 1987. But relief for fire certificate work would continue as at present, although over the narrower field described in the preceding paragraph.

#### Costs

22. None of the possible options would give rise to any significant Exchequer or staff savings; these would be very small in all cases.

Quarantine premises

1. Legislation in 1980 (Section 71 FA 1980) introduced a special incentive capital allowance for quarantine premises. Thus, persons carrying on a trade who incur capital expenditure in altering or replacing premises which were authorised quarantine premises immediately before 1 September 1972 in order to comply with Government regulations and who cannot otherwise obtain relief for their expenditure can claim capital allowances at the machinery or plant rate of 25% of the reducing balance.
2. The relief was introduced to help owners of authorised quarantine premises in existence immediately before 1 September 1972 with costs they had to incur in order to meet new standards introduced by MAFF on that date. Those standards were expected to have been achieved by 5 September 1979.
3. But the capital allowances legislation, while it applies only to alterations or replacements of premises which were in use as authorised quarantine premises immediately before 1 September 1972, incorporates no cut off of any kind.
4. The position is therefore that relief continues to be available for any alteration etc to pre-September 1972 premises made in order to comply with changes in MAFF licensing requirements whenever they come about. But where expenditure of that nature is incurred on authorised quarantine premises constructed on or after 1 September 1972 or on a later extension or addition to pre-September 1972 premises, no relief for capital expenditure will be due beyond that due under the normal plant and machinery rules.
5. MAFF officials tell us that only one-third of currently registered premises were operating pre-September 1972. They

are currently engaged in an update of their regulations which are to be made more stringent in some respects but not on the scale of the 1972 changes. The new regulations are expected to be in force in April or May 1988 and MAFF recognise that, against that background, it would be particularly unfair if the benefit of the special capital allowances were available only to the minority group.

6. There are 3 options you will wish to consider:-

- (i) withdraw the special relief with effect from Budget Day 1988 with protection for pre-contracted expenditure. This would create an even playing field and could also be presented as one more small step in the removal of special incentive reliefs;
- (ii) extend the existing relief to cover all quarantine premises whenever constructed. Again, inequity would go but such a move would seem to be wholly at odds with the general thrust of policy on business taxation;
- (iii) do nothing. The obvious danger here will be complaints from owners of post-1972 premises that they are unfairly discriminated against. There will be no good answer.

#### Costs

7. Option (i) would provide an Exchequer saving while there would be a cost associated with option (ii) but, either way, this would be negligible; the same goes for staffing implications.



Inland Revenue

Policy Division  
Somerset House

FROM: J H REED

DATE: 27 NOVEMBER 1987

*Handwritten notes:*  
by will smith or  
JHR  
pof

- 1. MR MCGIVERN
- 2. FINANCIAL SECRETARY

*Handwritten note:*  
We are not recommending any changes at present; and we are not seeking firm decisions until we can update the information about the current use of BES, but it would be helpful to have an indication of any changes which you might wish to make so that work can commence on the instructions to

BES: FINANCE BILL STARTER 203

This note is a review of what use has been made of BES recently and of various changes which Ministers might wish to consider making. We recommend that you do not take final decisions until, as last year, we send you another note, probably late in January when we will update the information about the use being made of BES. This is later than any of us would like, but we shall not have anything firmer to go on before then. So if there are changes which you think you may wish to make it would be very helpful to have provisional decisions soon so that we can draft instructions to Parliamentary Counsel and give him the option of drafting on a provisional basis.

Use of BES in 1986-87

2. I start with a summary of what we know about what happened last year. As I have said, we will not have reliable statistics of our own for some time - indeed our figures for 1985-86 are still subject to revision. What follows reflects second hand reports in the specialist press. As I said in my note to you of 7 May, the magazine "BEST Investment" reported that public BES funding (ie prospectus issues and managed

- cc
- Chancellor
  - Chief Secretary
  - Mr Monck
  - Mr Burgner
  - Mr Scholar
  - Miss Sinclair
  - Mr Cropper
  - Mr Jenkins (OPC)

- Mr Painter
- Mr McGivern
- Mr Beighton
- Mr Calder
- Mr Cleave
- Mr German
- Mr Eason
- Mr Reed
- Mr D Arnold
- PS/IR

funds) totalled £147 million in 1985-86 and £148 million in 1986-87. On the basis of our own statistics the 1985-86 figure seems about right. Our latest statistics for that year (which we do not expect to change much) show that about £145m was raised by companies raising more than £100,000. Such companies normally raise BES money either by prospectus issues or from managed funds , while these methods of raising finance are unlikely to be attractive for companies raising much under £100,000.

3. In total our current statistics show that £157 million was raised through BES in 1985-86. Given that some claims for relief will not yet have been made or recorded, we see no reason to alter our estimate of £165 million for 1985-86. And it seems likely that the 1986-87 figures will be similar.

4. The magazine said that 32 per cent of the finance went into secured contracting and property development, 19 per cent into retailing, 13 per cent into hotels, 10 per cent into manufacturing and the remaining 26 per cent into a variety of activities. The list of the public offers we know about and the amounts sought (although the amounts raised may be less) is attached as Annex A.

5. The magazine said that the average size of prospectus issues increased from £1.6 million in 1985-86 to over £2.5 million in 1986-87. The ten largest issues (the smallest of which raised £4.8 million) are described briefly in Annex B, which we sent to the Chancellor in May. Mr Kuczys's note of 14 May recorded "In the light of this, [the Chancellor] has commented that we will, he fears, need to review the BES restrictions again before next year's Budget".

6. You may find it interesting to see the breakdown by size of the amount of BES finance raised in 1985-86.

<u>£'000</u>	<u>Number of companies</u>	<u>%</u>	<u>Amount raised (£m)</u>	<u>%</u>
< 50	358	53	6	4
50-100	82	12	6	4
100-250	110	16	17	11
250-500	54	8	18	12
500-1,000	30	4	22	14
> 1,000	36	5	88	56
	670		157	

The concentration towards the upper end of the range increased over 1984-85, for example in 1984-85 only 44 per cent of the amount raised was in amounts over £1 million. Between these two years the proportion of companies recorded as investing in the South East (not a reliable indicator of where any resulting physical investment took place) remained the same at 49 per cent but the proportion of the total amount raised by them went up from 67 per cent to 70 per cent.

#### 1987-88

7. The November issue of "BEST Investment" gives the following figures for the year to date (and the equivalent figures for 1986-87):

	<u>1986-87</u>	<u>1987-88</u>
Prospectus issues	16	17
Managed funds	19	11
Total	35	28

It comments "Since the stock market slide began, BES funding has come to a virtual standstill with only £3 million raised in the past month and now the cumulative funding is actually lower than at the comparable period in 1986-87." (Last year, about £16 million was raised in October.) I imagine that the drying-up of BES issues is at least partly temporary in that



the companies wishing to raise BES finance may want to wait until the markets have settled down, because until they do the potential investors may be distracted (the Peat Marwick report said that for most investors BES equity amounted to less than 5% of their total portfolios). There may be a longer-term effect to the extent that people expect their incomes to fall. It is difficult to assess the effect of the stock market slide on the relative attractiveness of BES investments - they could become more attractive in comparison with quoted equities now that investors have become less bullish.

8. The composition of the public offers in the year to date is shown in our attached list (Annex C). Secured contracting and property development is still prominent but there are a number of smaller issues which seem to be more in accordance with the spirit of BES. However, it is too early to draw any conclusions for the year as a whole, except perhaps to say that as yet there is no reason to believe that the total amount and pattern of BES investments in 1987-88 will be very different from what they were in 1986-87 (although there are signs that the swing away from managed funds towards prospectus issues is continuing).

#### Secured contracting

9. As I have said, companies carrying out secured contracting and property development accounted for about a third of the BES finance raised last year and there is no reason to suppose that the proportion will be very different this year. You may find this disturbing because these companies are being marketed as safe investments (although building construction can be risky) and are likely to show low additionality.

10. Typically, these companies are building contractors working on deferred payment terms, with the corresponding debt secured on the property concerned. The BES finance is used to pay the sub-contractors who do the actual building work. At the extreme, the proposed BES company would be no more than a financing operation and the advice of our Solicitor is that we

could argue that it is ineligible for BES relief because it is caught by the exclusion of financial activities. So far we have been successful in warning people off promoting such schemes. Less extreme cases, where the company takes part in the real activity of construction work (eg, acting as project manager), are more likely to be eligible. Essentially, it is a question of fact and we need to look at the activities, or proposed activities, as a whole. If the company itself does a reasonable amount of construction work we accept that it qualifies for BES relief. This is well known and we expect that existing and future secured contractors will retain sufficient work to satisfy the test.

11. While there is a case for excluding this kind of activity from BES relief, it may be difficult to do anything effective. The essence of these schemes is that the company makes payments to sub-contractors while the building is being erected but does not receive payment until afterwards. The BES finance is used to fill this gap. These arrangements could be applied to other industries in which the BES company could be an intermediary. To exclude such arrangements from BES would involve a test of what payment arrangements would be acceptable. This would be difficult to draft and, because of the variety of different bona fide arrangements in different industries, might not hit the right targets.

12. It would be easier to restrict the scope for the company to take a charge on the property to secure the payments due to it. This could be done by treating a charge as an interest in land for the purposes of the land and buildings test - a company which secured all the payments in this way would be likely to fail the test. But in isolation this change would have little real effect. The secured contractors would merely find blue-chip customers and this in itself would be enough to reassure BES investors that the payments would be made. On the other hand, the secured aspect of the investment would be reduced or removed and the financial status of the customers would then be a matter for potential investors to take into account in deciding whether to invest in the company.

13. There is however a more general point. As noted above, BES investors look for safe investments and so the market provides these (farming in 1983-84 - although this has perhaps turned out to be less safe than expected, property development in 1984-85, land-backed companies, wine and antiques in 1985-86 and secured contracting in 1986-87). Legislation can be devised to discourage these but there will always be new ideas for investments which can be presented as being safe. Secured contracting does not score as badly against the main criteria for BES investments as some because building construction is a fairly risky business.

14. Earlier this year your conclusion was as follows (Mr Williams' minute of 5 February).

"If we were contemplating a larger package of measures containing both relaxations and restrictions this year there would be a strong case for taking action to exclude secured contracting.

Given a small package, however, the Financial Secretary does not recommend acting this year.

If the situation worsened very badly during the course of the year, there is of course, the possibility of using the statutory instrument power contained in the 1986 Finance Act."

Ceiling on investment in any one company

15. This idea was considered during last year's review. Your conclusion was:

"Although personally attracted to the idea of a ceiling the Financial Secretary's view is that this is not a possibility not least because it is probable that all shipping projects would be excluded by such a ceiling."

At TCC in February, the majority view was that an upper limit might be desirable, although the implications for shipping were noted. The Chancellor asked (Mr Kuczys' minute of 20 February):

"that the possibility of an investment ceiling be made a starter for 1988. If shipping makes no use of BES in 1987-88, then the strength of the objection, that this proposal would rule out BES finance for shipping, would be diminished."

A few months ago Mr Fowler suggesting a ceiling of, say, £250,000 and Mr Lang supported this.

16. Our current understanding of the usage of BES finance for ship chartering is as follows. In 1986-87, Edinburgh Tankers sought £15 million but only raised £5 million (and then only by calling on the underwriters to fill the gap between the amount put up by the public and £5 million). There were two other ship chartering companies seeking BES investment in 1986-87 - one was seeking only £1 million (we do not know whether it got this) and the other was seeking £4.65 million with a minimum subscription of £1.25 million (when last we heard it had raised over half of the minimum subscription). We are not aware of any ship chartering schemes for 1987-88 (and neither is the General Council of British Shipping), but of course they may appear later on. Our present view is that ship chartering schemes have not proved particularly attractive to investors, and the GCBS say there is not much demand for small ships at present, so we would not expect many to come forward this year. So depending upon what happens later this year, it may be that the continued use of BES for ship chartering might not prove an important consideration in deciding whether or not to have an investment ceiling.

17. It is likely that a ceiling could substantially affect the kind of public offers that are made, depending on the level at which it was set. From the evidence in the Peats report there is a good case for a ceiling of perhaps £100,000 or £150,000 (on the grounds that amounts below these figures

showed the highest additionality). But we think that in practice unless you wished to restrict substantially the raising of BES finance from the general public, a ceiling of at least £250,000 or £500,000 would be necessary to maintain for example the BES funds (typically, these prefer not to make investments in each company of less than about £100,000 or £150,000). Furthermore, if the main purpose of a ceiling were to exclude big, safe public offers a ceiling of £1 million might be reasonable. There would no doubt be an attempt to create safe public offers just below the ceiling but this would be less lucrative than the present large offers (for example, nearly all the companies trading as secured contractors have sought at least £5 million and none has sought less than £1 million).

18. A ceiling would not be technically difficult to introduce. There would need to be rules to prevent avoidance by the fragmentation of a trade between several companies but these could be based on the similar rules introduced last year for the £50,000 limit on the amount of BES finance which can be raised without regard to the land and buildings restriction.

19. If you wish, we could send provisional instructions to Parliamentary Counsel about the introduction of an investment ceiling. You could then take a final decision after you had seen the note (probably in late January) assessing what use was currently being made of BES.

#### Land and buildings restriction

20. Given the Chancellor's comment that Ministers will need to review the BES restrictions, I should say something about the land and buildings restriction which was introduced in 1986. Essentially, this denies BES relief to a company if at any time within a 3 year period the value of its land and buildings (after deducting the amount of any debts secured on them, long-term loans or preference shares) exceeds 50 per cent of the net value of the company (ie, all assets less all

debts). There is an exclusion for the first £50,000 of BES finance raised in a period of 12 months - this is always eligible for BES relief.

21. This restriction seems to be doing its job. The 50 per cent figure is somewhat arbitrary and could be varied. For example, it could be reduced to 25 per cent, with the aim of making BES investments less secure. But this would raise objections, for example from the hotel industry (see the next section), and we do not see a strong case for any change. Similarly, the £50,000 exclusion could be raised (we see no good reason to reduce it). An increase would be welcomed and you might wish to consider it as part of a package of measures - for example, along with an investment ceiling.

#### Hotels

22. In February (Mr Williams' minute of 5 February) you were sympathetic towards helping hotels raise BES finance by easing the land and buildings restriction. But you thought this would have to be done by a general relaxation of the restriction and that this would not be an attractive option.

23. Last year hotels accounted for 13 per cent of public BES funding (paragraph 4 above) and this year there have been two public offers seeking a total of £6 million (see Annex C). While individual hotel companies may have difficulty in raising BES finance because of the land and buildings restriction, the overall picture is fairly good. So the case for any relaxation of the restriction does not seem strong.

#### Carry-back of relief

24. This allows investment in the first half of the tax year to give rise to tax relief against the income of the preceding tax year, subject to two restrictions. First, no more than half the amount invested by an individual in a particular share issue can be carried back and, second, no more than £5,000 of relief in total can be carried back from one year to the preceding year.

25. The purpose of the relief is of course to encourage more investment to take place in the first half of the tax year, instead of the second half. If successful, this should make it easier for a company to raise BES finance when it wants to. The purpose of the restrictions on carry-back is to prevent the peak of investment simply moving from February/March to, say, August/September. Without the restrictions this would be likely to happen because investors generally would welcome a further six months in which to decide on their BES investments, and find the money for them.

26. A fuller explanation of the case for each restriction and its level is contained in my minute to you of 29 April. Mr Williams' minute of 7 May recorded that you were

"content that the limit should be left at £5,000 for the time being and that[we] should monitor what use is being made of the carry-back and report back to him so that the position can be looked at again in due course."

27. As we said at the time, we did not expect much use to be made of the carry-back this year because most investors will have decided before the Budget what use to make of BES for 1986-87 and made their investments accordingly (although some might subsequently have decided to invest more). Similarly, companies will have assumed that it would be difficult to raise BES finance in the first half of the tax year and so will not have made preparations to do so. Nevertheless, the preliminary indications are encouraging. The October edition of BEST Investment said

"There is no doubt that enthusiasm for the £5,000 carry-back facility has been rather greater than we and most BES professionals expected. Over half of the subscribers for Angora and Dix Belgravia elected for this facility and there is no doubt that it has contributed to a higher level of funding in September than would otherwise have been the case.

However, to put matters in perspective, prospectus issues have raised £15 million in the first six months of the financial year compared with £112 million in the second half of 1986/87. March 1988 looks like being just as frantic as before. Please Mr Lawson, increase the limit to at least £20,000 if you really want to flatten out the seasonal pattern."

28. My conclusion is rather different. I think a £20,000 limit would be too high and would be likely to lead to a peak of investment in August/September, but in any case it is too early to judge how successful the relief will be. There is therefore a strong case for doing nothing in next year's Finance Bill and waiting to see how much investment takes place in the first half of 1988-89. But you may find it helpful if I review the case for increasing the monetary limit.

29. The £5,000 limit was based on the breakdown of the total amount invested by individuals in BES in 1984-85 (the latest year for which figures were then available). This breakdown is as follows (corresponding figures for 1985-86, which are provisional, are shown in brackets).

	<u>Investors (%)</u>	<u>Total amount invested (%)</u>
Up to £5,000	58 (60)	14 (17)
£5,000 - £10,000	22 (16)	20 (13)
£10,000 - £20,000	11 (13)	20 (22)
Over £20,000	10 (11)	47 (47)

The average amount invested by each individual was £6,700 (£7,400 in 1985-86).

30. On the basis of the 1984-85 figures, 63 per cent of the total amount invested could be invested in the first half of the tax year and qualify for a carry-back of relief (the remaining 37 per cent being the excess over £10,000 for those



individuals who invested more). Using the 1985-86 figures, the proportion increases slightly from 63 per cent to 65 per cent.

31. In our view, and on the basis of present evidence, a £5,000 limit is about right. If the limit were increased to, say, £10,000 the proportion ineligible for relief would drop from 35 per cent (using the 1985-86 figures) to 18 per cent. There would in my view be a real risk that this would cause the peak in investment to move to August/September, not in 1988-89 (because the increase would not be known about until the Budget, when investment decisions would generally have been made), but over the following few years. But this is far from a certainty and you could defend an increase in the limit on the basis of the preliminary indications from this year's experience.

#### Relaxations

32. We are not recommending any relaxations. But in the course of talking to the Institute of Taxation and during a visit by myself and Mr McGivern to the St Helens Trust (which runs a successful local BES syndicate) we gave commitments to draw certain suggestions to Ministers' attention. These, and our comments on them, form the subject of Annex D. Briefly, the suggestions are as follows:

- i. the relaxations about permitted subsidiaries which were introduced in Finance Act 1986 should be extended to shares issued on or before Budget day 1986;
- ii. BES funds should be allowed up to 12 months after the end of the tax year in which to invest in companies; and
- iii. paid part-time directors should be eligible for BES relief.

### Oil exploration

33. You will recall that earlier this year you approved the drafting of a new clause (for the Committee Stage) to extend the existing oil exploration relief so that it applied where the BES finance was raised to carry out oil exploration on a licence area into which the company had farmed-in (at present, the company has to have been granted the licence when it was issued). You informed Mr Alick Buchanan-Smith of your decision. Then came the announcement of the Election and he replied that he hoped it would be possible to make appropriate provision as soon as a new opportunity presented itself. You decided against trying to do this in the post-Election Finance Bill. Do you wish to include the clause in the coming Finance Bill? If so, we shall provide a letter for you to send to the Department of Energy.

### £40,000 limit

34. The £40,000 annual limit on BES relief by an individual or, as the case may be, a married couple has remained unchanged since BES was introduced in 1983. On the basis of the 1985-86 figures, few (about 5 per cent) investors are constrained by this limit and so the case for increasing it so as to increase investment is weak (the corollary is that an increase would not cost much). This issue is therefore largely a matter of judgment about the politics of BES.

### Increasing local investment

35. In his minute to the Chancellor of 24 July, Mr Burgner reported on the outcome of inter-departmental discussions about the scope for stepping up the promotional effort. There were various suggestions (eg the writing of articles about BES) although, as he said, they were pretty modest. These have been put in hand. There is I think a limit to what can be done at the moment positively to encourage the local use of BES. Arguably the best contribution Government can make is to minimise the changes made to BES so that local accountants and business gradually come to understand the rules better and

therefore become more likely to use BES. This is not an argument against making any change. For example an investment ceiling is not likely to affect directly any local investments (because the amounts will usually be relatively small) - indeed, there might be a beneficial effect as investors looked for alternative investments to the big, safe public offers.

#### Further study into BES

36. At a recent meeting the Chancellor asked whether we could provide any follow-up to the Peat Marwick report on BES. At present, we cannot. As I said last year, while there is a case for a further study of investment in 1983-84, its value would be limited considerably by the major changes to the Scheme in 1986. Our conclusion was that a further study should not be made until BES had been running for some time under the new rules - at least another year to eighteen months - so that we could then consider the impact of the Scheme as it now stands (although there might be a follow-up study of 1983-84 to get an impression of the longer-term effects of BES finance). We could commission from consultants such a study to be carried out during the middle of 1988. This would look primarily at investment in 1986-87. On the basis of the Peats study, it might cost somewhere in the region of £250,000, which we have not provided for within our present budget. If you wish, we shall give further thought to this and let you have a fuller note, although our present view is that if a further study is to be undertaken it should look at the Scheme as a whole, including the effects of the major 1986 changes.

#### Conclusion

37. We see a good case for making little or no change to BES next year, although there is no need to take decisions now. You will have a better idea of developments in the BES market when I make my next submission (probably in late January). But if you feel there are any likely candidates for next year's Bill you may wish us to instruct Parliamentary Counsel on a provisional basis to ease his problems. The main candidates seem to be:

- i. an investment ceiling; and/or
- ii. some action against secured contracting (although it is difficult to think of anything effective).



J H REED

BES : PUBLIC OFFERS FOR SALE 1986/87 (as at 5 April 1987)

COMPANY	NATURE OF TRADE	SPONSOR	AMOUNT SOUGHT EM
Dix Belgravia	Property dev/Deferred payt Building Contractor	Johnson Fry	5.0
Secured Property Developments	" " "	Choulartons Ltd	5.0
Land and Urban (Development & Secured Construction) plc	" " "	Chancery Securities plc	5.0
Gladding Secured Contractors	Property dev/Deferred payt Building Contractor	Chancery Securities plc	10.0
Peter Ling Design and Build	" " "	Austin Horn Associates	5.0
Cavendish Constructors	" " "	Smith & Williamson	7.0
Trinity Estates plc	Property dev/Deferred payt Building Contractor	Chancery Securities	5.0
Burrell Contracts plc	" " "	Oakland Capital Management	2.95
Alliance Property and Construction plc	Property and Construction Company	Guidehouse Securities Ltd	5.0
Portledge Hotel plc	Hotel	None	1.8
Country Resort Hotels	Hotels	Johnson Fry	3.0
Oak Hotels	Hotels	" "	5.0
Chester International Hotel	Hotels	Capital Ventures	4.0
Wharfside Hotels plc	Hotels	Guidehouse Securities Ltd	1.85
Secure Retirement plc	Sheltered Housing	Cayzer Ltd	5.0
Roman Homes plc	Retirement Homes	Capital Ventures Ltd	0.72
Residential & Care Services (UK) plc	Retirement Homes	None	2.5
Lockton Shops plc	Retail Shops	Guinness Mahon & Co	6.0
Country Gardens	Garden Centres	None	9.0
Ronald A Lee	Antique Furniture Dealer	Noble & Co	0.63
City Fine Wine plc	Wine Merchants, Shippers & Wine bars	None	0.8
Francis Frith Collection	Reproduction Photographic Prints	Minster Trust	1.0
Cafe Inns plc	Freehold Pubs and Pastry Shops (NW England)	Johnson Fry	3.0
County Inns plc	Pub and Off-licenses	Baltic Asset Management	2.5
Fast Forward Inns	Pubs	Johnson Fry	2.0
Black Horse Brewery plc	Brewery supplying free trade and tied estate	Pointon York Ltd	2.87
Kephasian Leisure	Public Houses/Hotels/Nightclubs/discos	Capital Matchmaker	2.5
Country Fitness Foods	Bakery/health Foods	None	0.3
Barbican Health & Fitness plc	Health and Fitness Club	Baltic Asset Management	2.25
Inn Trade Associates	Management services to licensed trade	Guidehouse Securities	0.875
Telebeam plc	Hand-held teletext receivers	UTC Securities Management Ltd	0.75
Telephone Information Systems (Holdings)	Telephone information systems	Greenwell Montagu Securities	1.0
Jasmin Electronics	Software/Hardware Systems	None	1.6
Atlantic Medical Systems	Portable & Compact Electrocardiograph	Capital Matchmaker	1.6
Crossland Lighting	Manufacture & distribution of lighting products	Neville Indust Sec/Gilbert Jeffs & Co	0.75
Powersure	Equipment to protect power supplies	Central Development Capital	0.19
Capital Jet	Travel Agency	Leading Ladies	0.25
Kwik Holidays	Travel Agency	Belmont Securities plc	0.754

Bromley Shipping plc  
 BES Shipping  
 Edinburgh Tankers  
 Captain O M Watts plc  
 Thames Line plc  
 Walker Wingsail (2nd issue)  
 Ballescía  
 Perry Publications  
 Leisure Ventures  
 Film Asset Developments  
 Croydon Cable TV  
 Unicorn Heritage  
 Weslake Birmingham Motorcycles  
 G R Jones & Associates  
 Unilube Holdings  
 Jeniva Landfill  
 Lawrance Industries  
 Hilton Mining  
 Unit Group plc  
 Acorn Hardwoods  
 Esterlac Beauty  
 Protecto plc  
 Chitty Group plc  
 United Farm Agency  
 Sea Catch

Number of Companies - 63  
 Total Amount Sought - £172.01m

Operating Coastal Ships in N Europe  
 Operating Coastal & Short Sea Ships around UK  
 Petroleum Freight  
 Ships Chandlers  
 Thames Waterbuses  
 Wind Assisted Ships  
 Footware  
 Publishing  
 Film Development  
 Film Development  
 Cable TV franchise  
 Royal British Exhibition  
 Motorcycle performance Engines  
 Engine Manufacturer  
 Oil Filter production  
 Skip hire/waste disposal/landfilling  
 Absorbent earths & performance minerals  
 Mining Equipment  
 Timber Pallet Manufacture  
 Sawmill  
 Skin care products  
 Disinfectant Research  
 Meat Wholesaler & Processor  
 Producer retailer  
 Salmon Farming

LET Financial Services Ltd	4.65
None	1.0
Johnson Fry	15.0
Palmerston Securities Ltd	1.5
Johnson Fry	10.0
None	2.25
Greenwell Montagu Securities	0.75
None	0.55
Belmont Securities	1.25
Chancery Securities	1.0
Johnson Fry	5.5
" "	4.8
None	0.08
None	0.03
Bolton House Securities	0.2
Bolton House Securities	0.25
Williams de Broe	1.9
Harvard Securities	1.34
Guidehouse Securities	2.0
None	0.8
Munroe Corporate	0.4
None	0.12
None	1.1
None	0.35
Minster Trust	0.75

Known Public Offer Failures

COMPANY	NATURE OF TRADE	SPONSOR	AMOUNT
Walker Wingsail (1st issue)	Wind assisted ships	Dartington & Co	1.8
Sheltered Housing Developments	Sheltered Housing Units	Leading Ladies Ltd	0.5
BM Industries	Motor car production	Richard Field	1.5

BES: FINANCE RAISED IN 1986-87  
LARGEST PROSPECTUS ISSUES

1. Gladding Secured Contractors Amount raised: £10m  
Sponsor: Chancery Securities

The Company has traded one year having raised £5m under BES in the previous year. The executive directors are also directors of Gladding Construction Co Ltd an established building contractor.

2. Country Gardens Amount raised: £9.6m  
Sponsor: none

The company operates garden centres (apparently on prime development sites) and has been trading for two years, in each of which BES finance was raised.

3. Lockton Shops Amount raised: £9.3m  
Sponsor: Guinness Mahon

Start-up which plans to operate as an electrical goods retailer specialising in the Panasonic/Technics/Bang and Olufsen brands.

4. Cavendish Contractors Amount raised: £7.0m  
Sponsor: Smith and Williamson Securities

Start-up that will trade as a secured contractor.

5. Dix Belgravia Amount raised: £5.1m  
Sponsor: Johnson Fry

Start-up that will trade as a secured contractor (60%) and property developer (40%). The management team comes from Dix Building Services group and a firm of chartered surveyors.

6. Edinburgh Tankers Amount raised: £5.0m  
Sponsor: Johnson Fry

Start-up which will trade as a ship owner and operator. Management has been provided by Ben-Line.

7. Oak Hotels Amount raised: £5.0m  
Sponsor: Johnson Fry

Company has been trading one year and will own and operate Ibis and Novotel hotels as well as undertake secured contracting. Hotel Management will be provided by the Accor group.

8. Land and Urban Amount raised: £5.0m  
Sponsor: Chancery Securities

Start-up that will trade as secured contractor and property developer.

9. Secure Retirement

Amount raised: £5.0m

Sponsor: Cayzer

Start-up engaged in sheltered housing development and specialised construction. On-going site management will be provided by a subsidiary of Anglia Secure Homes PLC.

10. Trinity Estates

Amount raised: £4.8m

Sponsor: Chancery Securities

Start-up engaged in property development and secured contracting. Will specialise in design and development projects in connection with Wiltshier Group.



## BES : PUBLIC OFFERS FOR SALE 1987/88 (as at 24 November 1987)

COMPANY	NATURE OF TRADE	SPONSOR	AMOUNT SOUGHT £M
Dix Belgravia (2nd Issue)	Property dev/Deferred payt Building Contractor	Johnson Fry	6.0
Cambridge Trust	" " "	None	2.0
Residential Property Development	Property Conversion and Development	London & Essex Securities	1.38
Tamborough Properties	Residential Property Development	Singer & Friedlander Hill Osborne	1.25
Ensign Group	Building & Selling Executive Homes	Capita Ventures	2.00
Fownes Hotel	Hotels	Johnson Fry	5.0
Black Barony	Hotel & Leisure redevelopment	Centreway	1.07
Abercorn Place	Private Junior School	Chancery Securities	0.8
Kent Indoor Cricket Club	Indoor Cricket Centres	None	1.5
Holland and Holland	Gun Manufacture	Cambridge Capital	1.12
Astec Group	Selling & Installing telephone equipment	Bolton House Securities	0.38
High Performance Composites	Manufacturer of tubular products	Oceana	1.5
Treelinks	Fruit Processor & Packer	Mercia Venture Capital	0.6
Angora International	Goat Breeding	Johnson Fry	3.2
Sea Catch (2nd issue)	Salmon Farming	Minster Trust	2.2
Glen APP	Salmon Farming	T C Cocmbs	0.68

Number of Companies - 16

Total Amount Sought - £30.68m

Known Public Offer Failures

Neilson Leisure Group	Holiday/Tour Operator	Guidehouse Securities	1.88
Joint Force (offer withdrawn)	Design Consultancy	None	0.2

ANNEX D

Suggestions for relaxations

Institute of Taxation

1. In Finance Act 1986 a large number of changes were made to BES. In general, these applied only to shares issued after Budget day. This was true both of those which narrowed the scope of BES (eg the land and buildings restriction) and those which widened it (eg allowing in overseas subsidiaries).
2. During the passage of the Bill it was suggested that the relaxations concerning the permitted subsidiaries of a BES company should also apply to shares issued on or before Budget day. I sent you a note about this on 20 June 1986 and your response (Mr Williams' minute of 25 June) was that this should not be done. Since then, the Institute of Taxation have continued to press for this change to be made and we undertook to put the point to you again.
3. Essentially, the arguments have not changed. What I said then about the proposed change was as follows.

"This would remove some constraints on the companies affected. There is no objection of principle to making this change nor, subject to the views of Parliamentary Counsel, do I think it would be difficult to draft. The reason for the present rule is that this seemed a fair and simple approach. It is simple in that there are numerous changes being made to BES in the Bill and, with a few minor exceptions, these all apply to shares issued after Budget day. It is fair in that some of the changes impose new restrictions and others offer relaxations and overall they represent a reasonable package. Allowing the relaxation for subsidiaries to apply from Budget day to existing share issues might be seen as creating a precedent for future changes to BES. So on balance we recommend against this. But, as I have said, if you want to make this change it should not prove difficult."

ANNEX  
D

4. The restrictions on subsidiaries apply only for a period of three years from the date of the share issue (or, if later, and it could be up to two years later, the date the company starts to trade). So even a company which issued its shares immediately before the 1986 Budget will only be affected by the restriction for one further year (from the date of the next Budget), unless its trade commenced later.

5. For most companies which issued shares on or before Budget day 1986 a relaxation would therefore have little or no effect. We still recommend against the proposal.

#### St Helens Trust

6. They made two suggestions. First, they say the peaking of investment in the last quarter of the tax year adversely affects them. They need to be able to raise funds and invest them at the appropriate time for the particular company and after making a careful appraisal of its prospects. Making decisions against a time scale leads to rushed and poor quality investments. Their suggestion is that investments in BES funds should qualify for relief by reference to the date on which the individual commits his money, not when the fund invests in the company. They propose a clawback of relief if the money had not been invested in a company by the end of the following tax year. They also propose that the money would have to be invested in the company for a full five years as at present (ie, the existing five year relevant period would start running not from the date the individual committed his money but from the date the fund invested in the company).

7. The difficulty of which they complain is a familiar one and the carry-back relief is meant to ease it. But they do not believe this is adequate and so they have suggested this special relief for BES funds. This is not a new idea. For example, the Conservative Small Firms Committee made essentially the same proposal in their 1987 Budget representations (ie before the carry-back was announced). And it has



MINISTER  
FOR ROADS AND TRAFFIC

DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB  
01-212 3434

2 DEC 1987

My ref:  
Your ref:

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✓  
mmp.

Peter Lilley Esq MP  
Economic Secretary to the Treasury  
HM Treasury  
Parliament Street  
LONDON SW1P 3AG

ECONOMIC SECRETARY	
REC'D	- 2 DEC 1987
ACTION	Mr McGuigan (ctE)
COPIES TO	PS/chancellor
	PS/FST
	Mr Culpin
	Ms Sinclair
	Mr Michie
	PS/ctE

2 DEC 1987

Dear Peter

1988 FINANCE BILL STARTERS

I am writing to let you know of the 'minor starters' measures that I would hope to see included in next year's Finance Bill. There are six candidates altogether. Three are definite, three less certain. Of the definite candidates, one (a) aims to change the criterion under which pre 1947 cars are eligible for a concessionary rate of vehicle excise duty, one (b) seeks to amend the 1987 Finance Act provisions for the Recovery vehicle taxation class and the other (c) involves an amendment to the VED exemption criteria for ambulances. Of the contingent candidates, one (d) provides for minor amendments to vehicle registration and licensing legislation, one (e) deals with dishonoured cheques procedures, and the other (f) is intended to provide powers to combat the under-licensing of heavy goods vehicles. In detail, the proposals are:

- a. Change the qualifying criterion for the concessionary VED rate (£60) to admit cars constructed before 1.1.47.

DVLC receives a small but significant volume of correspondence from owners of cars constructed before 1 January 1947 seeking to licence them at the concessionary rate applicable to vehicles first registered before that date.

When the basis for levying VED on private cars was changed from horsepower to engine capacity, on 1 January 1947, small (under 7 horsepower) cars registered under the Roads Act 1920 were allowed a concessionary rate of VED. The horsepower criterion was removed in 1984, but the concessionary rate (currently £60 a year) continues to apply only to vehicles first registered before 1 January 1947.

BOTTOMLEY  
TO  
EST  
2 DEC

If there is no proof that a vehicle was registered before that date it is not eligible for the concessionary rate of duty. Changing the criterion to 'constructed' before that date would allow many such cases to be resolved quickly, thereby reducing the volume of correspondence and saving staff time and costs. The measure would have an insignificant revenue cost and would be widely welcomed. It would take up between six and eight lines in the Finance Bill.

b. Changes to the 'Recovery Vehicle' taxation class.

The Finance Act 1987 created a new taxation class for Recovery Vehicles (those which collect broken down, etc. vehicles from the roadside). It has now become clear that as enacted these provisions do not allow us to make regulations to cover such things as the recovery of passengers without the vehicle, the collection of abandoned vehicles, or the maximum number of vehicles to be recovered, as originally intended. Naturally we want to amend the 1987 provisions to allow such regulations to be made. There would be no revenue implications and the provision would take up a quarter of a page in the Finance Bill.

c. Restrict 'Ambulance' class to emergency vehicles and introduce a new 'Welfare Vehicle' class.

This proposal introduces stricter criteria for the existing 'ambulance' class to include only 'emergency' ambulances, and to introduce a new 'welfare vehicle' class for those removed from the existing 'ambulance' class. Both classes will remain exempt from duty, though it is possible that a greater number of welfare organisations will claim the exemption. The proposal is likely to have a negligible cost and would take up a page and four lines in the Finance Bill.

To turn to the more uncertain candidates:

a. Minor amendments to vehicle registration and licensing procedures.

These are essentially tidying-up amendments, to remove minor potential weaknesses in existing legislation.

i. To make failure to notify acquisition of a vehicle a continuous offence.

ii. To update references to 'registration book' to include 'registration document'.

iii. To allow the existing Northern Ireland/Great Britain licensing exemption to be put on a statutory basis.

There are no revenue implications and the proposal would take up about half a page in the Finance Bill.

e. Strengthen measures to deal with dishonoured cheques.

When a cheque in payment for a VE licence is dishonoured, the licence is deemed to be void from the moment of issue. But in practice a motorist has the apparently valid disc to display and is able to avoid detection for unlicensed use. The Department has the authority to request the return of the void licence within a period of 7 days. Should the motorist not do so, he may be prosecuted. The system is time-consuming and will often end with the return of the licence after several months, during which time it has been displayed on the vehicle. The proposal seeks to provide authority for the recovery of duty for the period over which the licence was held, without the Department having to prove use of the vehicle.

This presumption of use (for which we will in most cases have no evidence) makes the proposal potentially controversial. However, it was one of the package of measures drawn up to strengthen the penalties for VED evasion in response to PAC criticisms. The package consisted of measures designed to close the loopholes in the back-duty provisions in Section 9 of the Vehicles (Excise) Act 1971, to bring the maximum fine for bounced cheque offences into line with that for VED evasion, and to introduce a back-duty provision to match that in Section 9.

The first two measures had an easy passage through the House last year. This, the third, had to be deferred because we were unable to get SHHD agreement. We are engaged in discussions with SHHD and hope soon to have their agreement. It is quite conceivable that the increased penalties for evasion will lead to increased use of the dishonoured cheque ploy, which we must have powers to combat. There are likely to be negligible revenue benefits. The proposal will take up a page in the Finance Bill.

f. Powers to combat under-licensing.

Licensing, especially of HGV's, in an inappropriate tax class with too low a duty rate - and particularly in the concessionary Restricted HGV class - is a growing area of VED abuse which is difficult to deal with by post licensing enforcement. To prevent it we propose to require a certificate of exemption from plating and testing (issued by the Department's Vehicle Inspectorate) as a precondition of licensing in that class.

The certificates would not only establish entitlement to the concessionary rate of duty (£130) but would confirm, following examination of the vehicle, its entitlement to exemption from plating and testing, which should also have benefits for road safety. It is not yet certain that all the necessary legislative changes would be within the scope of a Finance Bill.

Nevertheless, apart from the safety angle this proposal has potentially the highest revenue implications of all our proposals (it should net at least another £2 million and probably more, although I recognise this is still negligible in Treasury terms) so I am keen to carry it forward.

I should also let you know that officials have now written to advise that there is no requirement for Finance Bill space for the redefinition of 'community service bus' to make these vehicles eligible for the restricted heavy goods vehicle rate of VED. Other means have been found.

Finally, there is the question of representation at Finance Bill Committee. The arrangement of the last two years, where VED clauses were spoken to by the Treasury Minister seemed to provide for a smoother passage of such measures than if a Transport Minister was there to provoke discussion. Are you content with a similar arrangement for this year? Full official support would, of course, be provided from this Department.

*Yours ever  
Peter*

PETER BOTTOMLEY



*psj*

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

FROM: P JEFFERSON SMITH  
DATE: 3 December 1987

ECONOMIC SECRETARY

cc PS/Chancellor  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Mr Scholar  
Miss Sinclair  
Mr Michie  
Mr Cropper  
Mr Jenkins (Parliamentary  
Counsel)

**REVIEW OF THE STRUCTURE OF THE WINE AND MADE-WINE DUTIES (STARTER NO 4) AND ABOLITION OF THE MINIMUM DUTY CHARGE ON BEER (STARTER NO 7)**

1. In my minute of 4 November, addressed to the Paymaster General, I briefly outlined the background to restructuring and drew attention to the two major components; the fortified wine duties and the creation of a new duty band for low-strength drinks. I said we would send a further note after we had met the British wine producers.
2. In considering possible courses of action it is pertinent that revenue is not the prime consideration. The relatively minor revenue effects of the options could be offset or compensated for by marginal adjustments elsewhere.

**Fortified wines and made-wines**

3. Wine and made-wine (this is a term of art for what is in practice a British product made from imported concentrated grape juice) are taxed under a duty structure which varies with strength. Up to and including 15° alcohol, there is a flat rate. Then there is

Internal distribution:

CPS  
Mr Knox  
Solicitor  
Mr Nissen

Mr Whitmore  
Mr Allen  
Mr Breuer  
Mr Fotherby

Mrs Hamill  
Mr Hawes  
Ms Noonan

62/12/87



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a sharp jump for wines of 15% to 18% and a further less steep jump over 18%. Wines may not be blended duty paid, but made-wines may be blended, and this gives producers of British sherry a significant duty advantage over Spanish sherry. Further particulars of the duty structure are at Annexe A.

4. How we got to the present position is a long story. Suffice it to say that Spanish sherry, with roughly a quarter of the market, is now the only major drink paying the full rate of duty for medium strength wines. After entry into the EC the Spanish sherry interests complained that duty-paid blending of made-wine was discriminatory and threatened infraction proceedings. Our legal advice was that the UK would lose if the case went to the European Court of Justice. Many interests were involved and last year we had a consultative exercise prior to deciding what best to do. During this consultation the British wine trade argued that loss of its ability to blend duty-paid and thus the duty advantage over Spanish sherry would kill off British sherry, the trade's major product, with devastating consequences for the industry.

5. When the position was assessed before the 1987 Budget, the provisional conclusion reached was that the best course would be a restructuring which would introduce a new 13% to 15% duty band for fortified wines together with an adjustment of the duty relativities between bands in favour of Spanish sherry. As a part of the package the 1985 banning of duty-paid blending of wine would be reversed; the alternative of extending the ban to prohibit duty-paid blending of made-wine was thought too damaging to British producers. It was considered that even if this package did not persuade the Spaniards to abandon their action, it would mean that in legal terms so much would have changed that if they wanted to continue to claim discrimination they would have to mount a new case related to new circumstances; and we would be on much stronger grounds in defending the position.

6. The package was devised on the assumption that it could be introduced as part of an overall increase in the drinks duties. As there was in fact a standstill, and as the package was a "least bad" solution, it was decided not to proceed. Since the 1987 Budget there have been two factors which now point to a different solution.

7. The first is that the British wine producers have always accepted that some solution must be found, but have now changed fundamentally their preference. They are now opposed to any form of restructuring of the duties on higher strength wines and made-wines and, in effect, have withdrawn their strong opposition to the loss of duty-paid blending (Annexe B). Other developments are contributing towards a standardisation of all

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British sherry at about 15% alcohol and they will no longer rely on the advantage gained by duty-paid blending if the existing 15% borderline between the light and medium duty bands remains unchanged.

8. The British wine producers about face has made much more attractive a relatively straightforward course of action to deal with the threatened infraction proceedings. The present duty structure is admittedly anomalous, and there is a case for going ahead with a restructuring on the lines devised last year in order to improve it. But this is not imperative, and any feasible restructuring would now create significantly more problems than it solved. To introduce a 13% to 15% band would meet opposition from UK, Cypriot and Italian interests, and would not necessarily satisfy the Spanish - particularly if the duty on Spanish sherry were raised as part of a general increase in the duty on fortified wines in the next Budget.

9. If, however, the prime objective is to meet the Spanish complaint with least damage to British interests there is a solution which was not available last year, that of banning the duty paid blending of made-wine. In our view this has the edge. The main plank of the Spanish legal case would be removed. By reducing the strength of British sherry to not more than 15% the producers would maintain, at least, the duty differential with Spanish sherry. Spain could not follow suit without changing their law which prevents Spanish sherry from being produced at below 15.5% alcohol. We believe such a change is unlikely.

10. If this is agreed as the solution, there is a question of timing. The second new factor is the inaction of the Spanish, who have still not made a formal complaint to the Commission. It is surprising that the Spanish complaint has not been pursued with more vigour, and MAFF and trade sources suggest that we cannot expect this to continue much longer. A representative of the sherry shippers is meeting me on 7 December and we may learn more then. But it may be a material factor politically that any action we took at present would be a response to an attack that had been threatened but not pursued. Although the British producers will accept the proposed solution they may feel they have to register a protest. There is therefore a case for not acting until the Spanish have actually complained to Brussels and the Commission have endorsed their complaint. Even if failure to act in the 1988 Budget provoked the Spanish into quicker action, legislation could probably be stalled until 1989.

11. However, there are dangers in stalling. Although the Spanish sherry producers have specifically objected to the blending of made-wine and the majority of British wine is of the sherry type, under long standing arrangements the industry also produces a range of light wines by diluting duty-paid made-wine cleared at just under 15% alcohol to produce a final product with a strength as low as 8.5%. The duty advantage gained is of considerable importance to the British wine producers who realise that they are vulnerable to a complaint similar to that made about blending. If the blending issue were raised in Brussels that of dilution might also surface. A further danger of playing for time is that a UK importer of sherry could institute action in the UK courts to establish that imported sherry is overtaxed, contrary to our EC obligations. This was a risk we feared during the wine/beer infraction case; it did not come about then, and it would be a novelty; but eventually someone will try it. On balance, and subject to anything that comes out of further contact with the sherry shippers, we recommend as the more prudent course a measure in the 1988 Budget to ban duty paid blending of made-wine.

#### **Low-strength mixed drinks**

12. This is a growth area, for which our present duty structure does not satisfactorily cater. In the context of alcohol misuse "low strength" is a misnomer, as many of these drinks are stronger than beer. But they are more readily comparable with wines and spirit based drinks, and in that context the description is apt. Annexe C gives more detail and the following summarises the main considerations and conclusions.

13. The duty structure effectively precludes imported low-strength mixed drinks and discriminates against UK produced beer-based and spirit-based mixtures. In the consultation paper we issued last year we floated the idea that there should be a new band of wine/made-wine duty for low-strength products at a flat rate of 50% of the full rate of duty on light wine/made-wine. As a result of the representations we received we now favour a structure which would apply to wine and mixed drinks containing between 1.2% and 5.5% alcohol; be charged according to the strength of the product; and approximate to the effective rate of duty on existing products manufactured from duty-paid wine and made-wine.

14. A problem with this is that the duty payable would be between one-fifth and two-fifths below that on similar strength beer. The brewers are likely to object on competition grounds, and such opposition could be fuelled by other considerations. The brewers wish to retain the lower limit on beer duty and they are likely to be under attack

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from other directions, including pressure for higher duty on stronger beer.

15. We do not know to what extent such as "coolers" and beer compete with each other directly, but our feeling is that they appeal mainly to different markets. If we were to go for an approximation between duty payable in the new band and beer duty, it could be argued that to increase duty on an established range of products would tend to discourage trading down from wines and spirits to the lower strength drinks and have an adverse effect on an expanding market. On the other hand, it could be argued that introducing a new band taxing alcohol at a lower rate than beer of comparable strength is unhelpful in tackling the problems of alcohol misuse.

16. When alcohol misuse is of growing public and ministerial concern and either course of action is open to criticism in this context, the choice is not easy, and one possibility is to defer the change for this year. However, both the need to remove discrimination in this area and concern about alcohol misuse will remain as issues. We suggest that the problem should be tackled and on balance we are inclined towards charging duty pro rata to the present wine duty. This should be acceptable to the trade, with the exception of the brewers, and would avoid the ramifications referred to in paragraph 5 of Annexe C.

17. **Beer.** As my note of 4 November on the "Starters" indicates (paragraph 7), there are no overriding revenue reasons for retaining the minimum duty charge for beer. Its abolition should find favour with those concerned with alcohol misuse. This, together with the level of any conjunctural change, might help in defusing any criticism of the new duty rate for "coolers".

18. In view of the current interest we suggest that other members of the Ministerial Group on Alcohol Misuse should be canvassed for views on these proposals. A draft is attached (Annexe D).

19. The subject and issues are technical and complex. You may wish to discuss.

Ph ✓

P JEFFERSON SMITH

**CONFIDENTIAL****Existing structure of the alcoholic liquor duties**

The structure consists of four quite distinct and independent duties. These are:

**Beer**

Beer duty is charged according to the original gravity (OG) of the liquid from which beer is produced (the worts) before fermentation takes place. The current rate of duty is £25.80 per hectolitre plus 86p for every additional degree of OG above 1030°. The original gravity provides an approximate measure of the potential alcoholic strength of beer but there is no precise relationship between OG and final alcoholic strength because fermentation can be arrested at any stage. Average strength beer pays about 18p duty per pint (about 21p with associated VAT).

**Spirits, including liqueurs and other spirit-based mixed drinks**

The duty is directly related to alcoholic strength, and is at present £15.77 per litre of alcohol (£4.73 per 75 cl bottle of spirits at 40% alcohol, £5.44 with associated VAT).

**Wine and made-wine (1)**

The duty is charged by reference to broad bands of alcoholic strength as follows:

Alcoholic strength	Duty per hectolitre (£)	Duty per 70cl bottle (to nearest p.)
not exceeding 15% (2)	98.00	69 (79p with assoc. VAT)
exceeding 15% but not exceeding 18%	169.00	118 (136p with assoc. VAT)
exceeding 18% but not exceeding 22%	194.90	136 (157p with assoc. VAT)

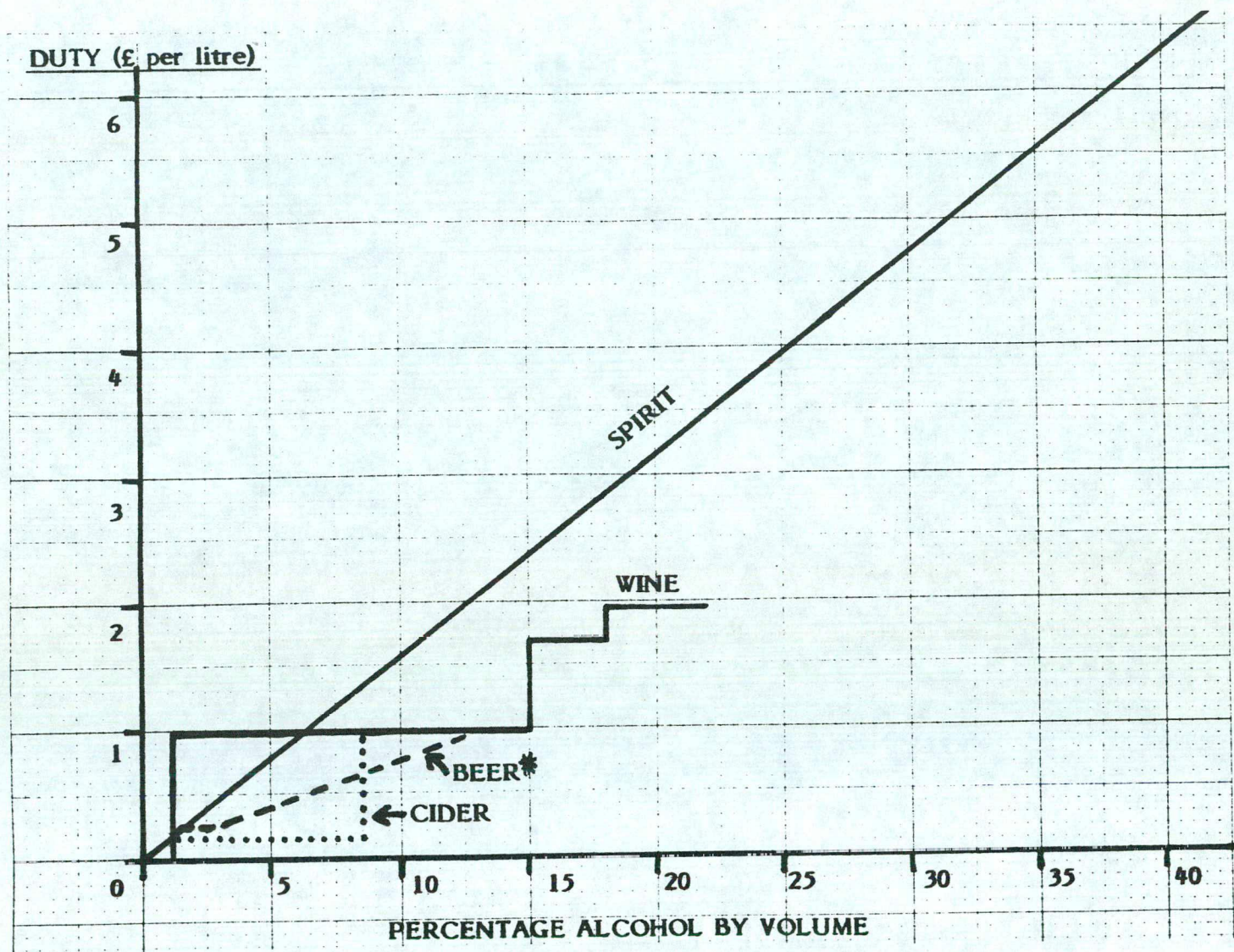
- (1) A term for wine made from concentrated grape juice and non-grape based wine. (It is also a catch-all for alcoholic drinks not otherwise defined).
- (2) Sparkling wine not exceeding 15% pays an additional 45p a bottle (51p with associated VAT).

**CONFIDENTIAL****Cider and perry**

These are charged at a flat rate of 15.8p per litre (9p per pint or just over 10p with associated VAT) unless they exceed 8.5% alcohol in which case they are taxed as made-wine.

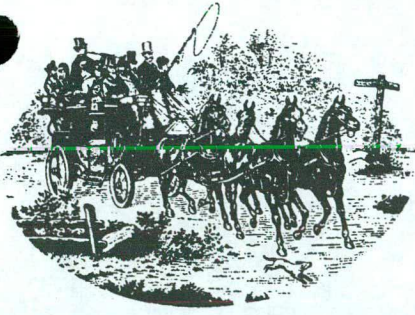
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The effect of the different duty systems is demonstrated by the graph below. The true incidence of duty on made-wine is lower because producers are permitted to blend and dilute after the duty has been paid. Blending of wine was effectively ruled out by the Finance Act 1985.



\*Beer duty is not charged according to alcoholic strength and the strength/duty relationship is an estimate.

# J. E. MATHER & SONS LTD



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COMMERCIAL IN CONFIDENCE.

W. D. Whitmore, Esq.,  
 Revenue Duties Division B,  
 HM Customs & Excise,  
 Kings Beam House,  
 Mark Lane,  
LONDON EC3R 7HE.

16th November, 1987.

Dear Bill,

It was very kind of you to meet our British Wine Producers delegation on 9th November. In order to make our position entirely clear with regard to the 'Review of the Structure of Duties on Wine and Made Wine', I have listed below the relevant points we discussed.

- 1) We accept that a solution must be sought to dispel the claim of discrimination in favour of British Sherry, brought to the attention of the Minister of Trade at the Treasury by the Spanish Producers of Jerez.
- 2) It now appears likely that merely permitting the blending facility for all wines (which was our initial requested solution), would not satisfy Jerez and could, therefore, leave the door open for further claims of discrimination against imported bottled products. It has been said that it would be very difficult to counter such claims with any hope of success if the matter should proceed to the European Court of Justice.
- 3) It was thought that any such further discrimination claims could be dismissed if at the same time as permitting blending for all wines a new duty band for products in the 13-15% alcohol range were introduced and designed to eliminate any apparent duty advantage through blending.
- 4) Due to the methods of manufacture, British Wine Producers would suffer immense damage to its only growth sector - light British Wines and to traditional products such as Ginger Wine, if a 13-15% alcohol duty band were to be introduced. In addition, we believe that one of the main competitors to British Sherry - Montilla Wine - would reduce its selling strength to less than 13%, putting it at a distinct duty advantage against the home produced product British Sherry.



- 5) The points made in our submission of 28th May 1986 are still relevant and British Wine Producers would be in a far happier position if the present regulations could be readily perpetuated.

Faced with the reality of the situation, however, and given an option, British Wine Producers would rather see an end to blending than the introduction of a new 13-15% duty band.

- 6) If the termination of blending was to be applied, then British Wine Producers request that it be implemented by the insertion of the 1985 section 54 (of ALDA '79) amendment clauses 3A and 3B into section 55, rather than by the combination of sections 54 and 55, or by some other method which safeguarded the legality of our current manufacturing practices.
- 7) British Wines and British Sherry have never gained universal acceptance within the Community and we have always followed advice by adopting a low profile wherever possible. For this reason we think it preferable to conclude the blending issue prior to claims of discrimination being laid before the European Court of Justice.
- 8) With regard to the possibility of the introduction of a new duty structure for 'Coolers', may we restate our contention that there would be many conflicts of interest and inherent dangers to the Revenue arising from such a move. If, however, such a new Cooler duty rate were to be introduced, British Wine Producers request continued access to current manufacturing procedures in order to maintain full use of specially installed plant and equipment.

I am sending a copy of this letter to Colin Bodrell at M.A.F.F., who has been briefed about the import of our discussions.

With kindest regards,

Yours sincerely,

  
A. B. GRAYSON

ABG/BI

### Low-strength drinks

1. The alcoholic drinks industry has shown an interest in recent years in developing a market for low-strength mixed drinks such as "coolers". These typically consist of a mixture of wine or made-wine with fruit juice and/or mineral water, but they can also be produced using a spirit, beer or cider base. They compete with each other regardless of the base from which the alcohol is derived. However, the existing duty structure results in large differences in the duty charged on products derived from different alcoholic drinks. For example:

The majority of coolers are made from wine or made-wine cleared at 15% alcohol and then diluted with fruit juice etc to a final strength of (say) 5%. This gives an effective rate of duty of about 33p per litre.

A spirit based cooler would pay duty at the spirit rate on the actual quantity of alcohol present. The effective rate of duty on a cooler containing 5% alcohol would be about 79p per litre.

A lightly fermented sparkling grape juice with as little as 2% alcohol would pay duty at the sparkling wine rate of 161.8p per litre.

An imported wine-based cooler would pay the full rate of duty on light wine/made-wine, ie 98p per litre.

A beer-based cooler would also have to pay the full rate of duty on light wine/made-wine, ie 98p per litre.

A beer and lemonade shandy mixed at the bar would bear excise duty only on the beer (perhaps 12p to 15p per litre of shandy) but a pre-mixed shandy would have to pay the full rate of duty on light wine/made-wine, ie 98p per litre, unless the final strength of the pre-mixed shandy was less than 1.2% alcohol, in which case it would be free of duty. (If a new duty band were introduced, it may be appropriate to make special arrangements for a small number of long-established "traditional" beer-based drinks such as shandy and lager and lime.)

## CONFIDENTIAL

2. The duty structure effectively precludes imported coolers and discriminates against UK produced beer and spirit-based coolers. It also is a serious obstacle to the development of lower strength 'wine'. Although we have received representations from some of those who are disadvantaged by the existing structure, the pressure has not yet reached a level which would force us to take action. The market for these drinks is still quite small and there have been no signs yet of the rapid growth in this sector which has been apparent in some other countries, such as the USA and Australia; nevertheless, the trade expect the market to continue to grow. The British wine producers are, unsurprisingly, keen to retain their existing advantageous tax position, but we consider that the anomalies should be redressed to enable other legitimate trade interests to have a fair crack at this expanding market. In the discussion paper issued in 1986 we floated the idea that there should be a new band of wine/made-wine duty for low-strength products with an upper limit of 5.5% alcohol and a rate of duty set at 50% of the full rate of duty on light wine/made-wine. To ensure an effective rate of duty on such drinks, we said that it would be necessary to prohibit duty-paid blending and dilution. We also suggested that spirit-based mixed drinks would be outwith the new structure.

3. The upper limit of 5.5% alcohol has generally been accepted as sensible. However, the Wine and Spirit Association (WSA) entered strong objections to a flat rate of duty. They were and are particularly concerned that a change to a flat-rate duty would have a disruptive effect on existing products, which have been developed at considerable cost on the assumption that the duty structure would remain as it had been at the time the product was developed. The WSA therefore advocate a structure under which the duty would be in direct proportion to the strength of the product and equate to that under the existing procedures for dilution of wine cleared at 15%. Such a structure would enable manufacturers to continue to make their products from duty-paid materials, albeit without a significant advantage over imports or products produced in bond and cleared for home use under the new duty band. This would have the advantage of minimising any additional resource requirements for Customs. The WSA's proposals would cause minimum disruption to existing products while opening up the market to competition from coolers based on other alcoholic drinks, and imports. For practical reasons we could not operate an exact mirror of the duty structure obtained by diluting duty-paid wine/made-wine cleared at 15% alcohol. The smallest increment we think it sensible to provide for is a scale with increments for every 1° of alcoholic strength.

## CONFIDENTIAL

4. A major drawback of the WSA's suggestion is that it would result in this category of drinks paying only between about two-thirds and four-fifths of the duty payable on beer of a similar strength. There are presentational problems about creating a new duty category at a rate lower than the beer duty at a time when there is public and ministerial concern about over-consumption of beer. One possible solution to this problem would be to increase the rate of duty proposed by the WSA, while retaining a proportional structure, so as to provide a closer approximation to the beer duty scale. This would simplify the problem of how to distinguish between products which should be taxed according to the beer duty scale, eg lager and lime, and those which should be allowed to benefit from the new scale of duty for "coolers". However, it would create a number of difficulties. Existing wine and made-wine coolers (the majority of the market) would face a duty increase. For example, the tax on the leading brand, St Leger, would rise by nearly 3p per 25 cl bottle. Quite apart from trade opposition, those concerned with alcohol misuse could criticise this solution for imposing a relative duty increase on these lower strength drinks.

5. There are other difficulties with a new duty structure based on an approximation of the beer duty scale. Unless we imposed restrictions on the blending and diluting of made-wine, coolers produced from duty-paid made-wine would pay significantly less tax than that provided for by the new duty structure. However, the imposition of restrictions on blending and diluting made-wine would highlight the advantage that the British wine industry enjoys by diluting duty-paid made-wine with water to produce light British wine with a lower effective rate of duty than wine proper. Any action which put at risk the light British wines at the same time as British sherry faces the prospect of attack would be bound to provoke strong opposition. Moreover, restrictions would in practice be difficult to administer and control and require additional official resources.

6. We consider that the disadvantages of a duty structure based on an approximation of the beer duty scale outweigh the advantages. We are therefore left with a need to draw a borderline which would permit beer-based coolers to benefit from the new duty structure while excluding beer and any beer-based product such as lager and lime whose inclusion in the new duty structure would undermine the revenue from the beer duty. With Ministerial authority, we discussed this problem with the Brewers' Society in preparation for the 1987 Finance Bill as a result of which we have concluded that a reasonably satisfactory borderline could be operated.

## CONFIDENTIAL

7. The spirits industry have objected to the suggestion that spirit-based drinks might be excluded from the new provisions for low-alcohol mixed drinks. Their ultimate goal is for all alcoholic drinks to be charged at the same rate of duty according to their alcoholic strength. However, in the context of this exercise they argue that there should be no discrimination between competing drinks depending on the source of the alcohol. There is much to be said for facilitating the production of coolers based on spirits (of which the UK is a major manufacturer) on equal terms with coolers based on imported wine.
8. The nearest spirit-based drink of which we are aware to which we think it is important that the spirit rate of duty should be applied is a range of pre-mixed drinks such as "Double Gin and Tonic" and "Double Whisky and Lemonade". These are currently marketed at about 11%. If we agree to allow spirit-based drinks within the new duty arrangements for coolers, there must be a possibility that the trade will market pre-mixed drinks of a traditional spirit-based character of less than 5.5%. However, we do not regard the risk to the revenue as excessive and we doubt whether it outweighs the advantage of achieving a fairer duty structure in this developing area. Instead of barring spirit-based drinks from the new arrangements we consider that it would, on balance, be preferable to include them, subject to the restriction that spirits descriptions are not used in the marketing, labelling etc.
9. The cider makers would prefer cider-based products to be excluded from any new duty structure for mixed-drinks because they fear that this would result in pressure for straight cider to be included with a consequent increase in the duty on cider. We have explained to the cider makers that exclusion would be as likely to draw attention to cider as inclusion and we also have to bear in mind the possibility that others might wish to use cider as a base for a mixed drink. We recommend against a specific exclusion for cider.
10. We consider it sensible to have a lower limit below which coolers and similar low-strength drinks would not be taxed. A limit of 1.2% is already applied to beer and it seems sensible to extend this treatment. However, we do not propose any changes to the existing rules for alcoholic ingredients relief, which is restricted to wine and beer, other than to extend it to imported wine and beer-based products containing less than 1.2% alcohol. Our existing treatment of imports is clearly in breach of EC law and we are coming under increasing pressure to rectify the position. We are also under pressure to extend alcoholic ingredients relief to spirits, but such requests have consistently been rejected on the grounds that they would involve an unacceptable increase in official resources required to control the numerous traders who would be eligible to claim relief.

**CONFIDENTIAL****Resource and compliance costs**

11. The course advocated should not have significant implications for Departmental resources. The extra administrative costs to traders should be negligible. The alternative, of introducing a duty band approximated to the beer duty, would have resource implications both of the Department and traders.

## DRAFT LETTER TO THE LORD PRIVY SEAL

**ALCOHOLIC DRINKS DUTIES**

1. Alteration to the structure of the duties is not a matter about which Treasury Ministers would normally trouble colleagues in other Departments. However, in view of the current focus on alcohol misuse I shall be grateful for your views, and those of other members of the Ministerial Group, to whom this letter is copied, on the desirability of certain changes we are considering.
  
2. The alcoholic drinks industry has shown an interest in recent years in developing a market for lower strength mixed drinks such as "coolers". Typically these consist of a mixture of wine with fruit juice and/or mineral water, but they can also be produced by using a spirit, beer or cider base. They compete with each other regardless of the alcohol base but the present duty structure has a distortive effect. In practice it precludes imports of such drinks and it discriminates against those produced in the UK with a beer, cider or spirit base, and gives the UK produced wine-based products a near monopoly of the market.
  
3. Following a consultation exercise in 1986, the structure we are now considering would apply equally to UK produced and imported wine and to mixed drinks containing between 1.2% and 5.5% alcohol, and would be charged according to the strength of the product at a rate proportional to the duty on wine at 15% irrespective of the alcohol base. Products below 1.2% would not pay excise duty. The drinks would have to be appropriately labelled and marketed and, for example, not held out for sale using any description as spirits.

## CONFIDENTIAL

Certain traditional beer-based drinks such as lager and lime and shandy would be excluded from the new duty structure, but with alternative facilities for their production under the beer duty regime.

4. Such a structure would result in UK manufactured spirit, beer and cider based drinks and imported products paying the same duty as existing UK produced wine-based products. This is about 20 to 40% lower than the duty on beer of similar strength, but considerably higher than the duty on cider. We have considered whether it would be better to set the duty rate higher to bring the duty payable more closely into line with that on beer. There are technical problems and extra administrative costs, but these are not insuperable. Revenue considerations are not paramount and the decision rests largely on other considerations, including social aspects. We have no clear evidence about the extent of competition between beer and "coolers", but our own feeling is that the drinks appeal primarily to different markets with little direct competition; we believe that the main competition is between the coolers and wine and spirits. Taking this into account we have concluded that it would be undesirable to increase the relative duty on an established group of products, in a growing market which may contribute to a shift by consumers away from wines and spirits in favour of these lower-alcohol drinks. But it has to be recognised that whatever course is adopted, criticism from those concerned with alcohol misuse could follow.

5. We are also considering removing the minimum duty charge on beer which is based on 1030° Original Gravity (about 2.5% alcohol). You will recall that this was recommended by the Inter-Departmental Working Group of officials. The brewers are not in favour of abolition, expressing concern about the "image" of beer and potential effects on the traditional beer market. I find their arguments unconvincing. The brewers are now



selling a wide range of "lagers" with an alcoholic strength of below 1.2% and any potential danger to the main beer market from removing the 1030° lower duty limit should be capable of being countered by appropriate marketing and labelling.

6. I have set out very briefly some complex and technical issues. If you wish for further elucidation, I suggest your officials approach their normal contacts in Customs and Excise..

PETER LILLEY



H.M. CUSTOMS AND EXCISE  
KING'S BEAM HOUSE, MARK LANE  
LONDON EC3R 7HE

01-626-1515 382 5101

FROM: W F MCGUIGAN

DATE: 3 DECEMBER 1987

PS/Economic Secretary

cc PS/Chancellor ✓  
PS/Financial Secretary  
Mr Culpin  
Miss Sinclair  
Mr Michie

1988 FB STARTERS : DEPARTMENT OF TRANSPORT

Mr Bottomley's letter of 2 December to the Economic Secretary refers.

All of the matters mentioned in the letter concern ED classification and procedures. As such it is proper to FP at the Treasury. I have agreed with Mr Michie there that action will fall to him.

W F MCGUIGAN

---

Internal Circulation

CPS MR KNOX MR JEFFERSON SMITH MR BOARDMAN

CONFIDENTIAL



FROM: P D P BARNES  
DATE: 3 December 1987

A handwritten signature in dark ink, appearing to be "M".

MR NASH, C & E

cc: PS/Chancellor  
PS/Paymaster General  
Mr Scholar  
Mr Culpin  
Miss Sinclair  
Mr Michie  
  
Parliamentary Counsel  
Mr Knox, C&E  
Mr Allen, C&E  
Mr Smith, C&E  
PS/C&E

FINANCE BILL 1988: STARTER NO 64

The Economic Secretary was grateful for your submission of 24 November. He is content to give provisional approval to this starter and for drafting to go ahead.

Handwritten initials "RB" in dark ink.

P D P BARNES  
Private Secretary

~~PATTERSON~~ pmp



FROM: P D P BARNES  
DATE: 7 December 1987

MR JEFFERSON-SMITH - C&E

cc PS/Chancellor<sup>2</sup>  
PS/Chief Secretary  
PS/Financial Secretary  
PS/Paymaster General  
Mr Scholar  
Mr Culpin  
Miss Sinclair  
Mr Michie  
Mr Cropper  
  
Mr Jenkins - Parly Counsel  
  
Mr Knox - C&E  
Mr Whitmore - C&E  
Mr Allen - C&E  
PS/C&E

REVIEW OF THE STRUCTURE OF THE WINE AND MADE-WINE DUTIES (STARTER NO.4) AND ABOLITION OF THE MINIMUM DUTY CHARGE ON BEER (STARTER NO.7)

The Economic Secretary was grateful for your submission of 3 December.

2. The Economic Secretary would be grateful for the chance to discuss your submission with you.

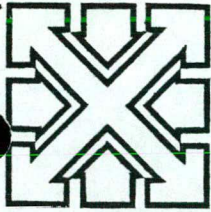
The particular subjects he would like to discuss are:

- (i) Whether it is worth making a move on fortified wines before Jerez lodge their infraction case;
- (ii) What the advantages are of making the move on coolers now rather than procrastinating;
- (iii) Whether there is a case for lowering the strength at which cider becomes subject to wine duty from 8½ per cent to, say, 7 per cent.

3. This office will be in touch to arrange a meeting.

Rs

P D P BARNES  
Private Secretary



# The Association of British Chambers of Commerce

Sovereign House, 212a Shaftesbury Avenue  
London WC2H 8EW

Telephone: 01-240 5881 Telex: 238871 MONREF G CHA001 Fax: 01-379 6331

BR

HM TREASURY - MCU	
RECD.	7 DEC 1987
ACTION	Mrs Brantons MP
MP	17 copies
CC CLK	EST PMG, EST Sir P Middleton,
EST	Sir T Burns, Mr Cassell, Mr Monck, Mr Scholier,
EST	1 December 1987
EST	Mr Colpin, Miss Sinclair, Mr Gray, Mr RIG Allen, R & C
EST	EST
EST	29234/87

DIRECTOR-GENERAL: R.G. TAYLOR

*mp*

Rt. Hon. Norman Lamont  
Financial Secretary  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

Dear Financial Secretary

## 1988 FINANCE BILL REPRESENTATIONS

I enclose for your consideration this Association's General Technical Representations for the next Budget. This is without prejudice to the Association's formal representations on the Budget, which will be presented early in the New Year. As in former years, there are a number of matters which it would seem proper to raise at Ministerial rather than at an official level:-

1. Legislation: Our views on the excessive quantity and technical quality of tax legislation have been expressed in the past. We can but add that a 1,041 page Bill to consolidate income tax and corporation tax legislation, adds to our dismay.
2. Stamp Duty: The current  $\frac{1}{2}\%$  impost in respect of share transfers should be abolished so enabling the current backlog of paperwork to be reduced with a considerable saving in cost and effort to all concerned.
3. Capital Gains Tax: We are again urged by our members to submit that CGT should be repealed in its entirety or that at the very least, assets acquired before 31 March 1982 should be exempt from CGT after they have been held for a fixed number of years (say 10). The almost catastrophic fall in recent weeks of quoted shares provides a unique opportunity to abolish this impost.
4. Technical Tax Bill

The Association wishes to add its voice to those who call for a Bill published prior to the Finance Bill and quite separate from the Budget, to deal with desirable technical changes which need proper and thorough consideration and debate not otherwise available within the strict Budget and Finance Bill timetable.

### 5. Local Enterprise Funds

The Association supports the concept of such funds set up for the benefit of the local community, to be run by reputable bodies such as Chambers of Commerce and to be given BES treatment for tax purposes.

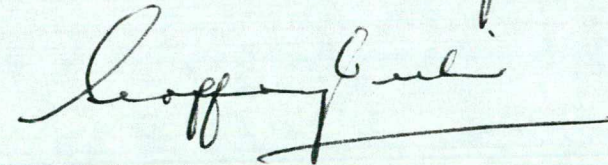
6. Finally, in connection with the Government's encouragement of the small business and the businessmen involved therein, two examples which point in the opposite direction:-

a)	Earnings liable to top rate tax	£100
	Tax	<u>60</u>
	Available for savings/investment	<u>40</u>
	Inheritance Tax for Estate over £330,000	<u>24</u>
	Remainder	<u>£16</u>

b) 1986/87: Basic rate 29% to 40% band = increase of 38%

1987/88: Basic rate 27% to 40% band = increase of 48%

As is customary, copies of the Representations are being sent to the Inland Revenue and to H M Customs & Excise.

*Yours sincerely*  


G H Vieler  
Chairman, Taxation Committee

THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE

TECHNICAL REPRESENTATIONS

CORPORATION TAX

1. Small Companies Rate

The restriction of the ceiling level of profits by reference to the number of associated companies, regardless of their size, produces anomalies where there is not a free transfer of profitability between the companies and the S.280 associated company rules infer trading relationships which often do not exist.

A more equitable method would be to apportion the ceiling figure of £100,000 in proportion to the taxable profits of the associated companies. At the same time, recognising the difficulty which would arise from differing accounting dates, such a method of apportionment should only be available to associated companies which have the same accounting reference date.

2. Purchase of Own Shares

The purchase of its own shares by a family company results in inequitable problems if subsequently profits are capitalised. Existing legislation should be amended so that such a capitalisation is not regarded as a distribution.

3. Group and C.G.T.

For valid commercial and management purposes, various operations of a business are normally carried on by separate companies; however, the Companies Act requires that the results be consolidated for publication, thus recognising the concept that only one business is involved. In such circumstances, the CGT profits and - in particular - losses should be consolidated - for which it is our understanding draft legislation has been prepared.

4. Close Company Apportionments

We repeat earlier representations that there should be a free movement of trading (only) in the form of dividends from trading subsidiaries to their parent company. Normal commercial management should not be inhibited by the apportionment legislation.

5. Advance Corporation Tax

In the light of the mounting problem of ACT which is either written off against profits or carried forward in the hope of future recovery, existing restrictions on the utilisation of ACT appear both inequitable and illogical. We urge that there should be a general review of the legislation.



TECHNICAL REPRESENTATIONS

CAPITAL GAINS TAX

1. 'Holdover' relief

It would appear that there is a drafting inconsistency in relation to gifts where there is partial consideration - such as a sale at under value - and indexation allowance arises. It seems that such allowance is restricted to the donee whereas the donor should be entitled to appropriate relief.

2. Gifts and election for deferment

S.79 F.A. 1980 requires the gain to be calculated on a disposal by gift on the basis of its then market value. The tax on any gain is then held over until the recipient of the gift himself disposes of the asset. In many cases this procedure involves an inordinate amount of work (and expense), particularly where the shares of a private company are the subject of the gift and protracted negotiations with the Share Valuation Division result - often running into years. In such circumstances, could not the donee take over the donor's base cost and effectively stand in his shoes in calculating the gain and the relevant indexation allowance.

3. Retirement relief - Directors' Shareholdings

Provided certain conditions are met, an individual aged 60 or over who disposes of the whole or part of his interest in a business qualifies for retirement relief for CGT purposes.

In the case of a family company, an individual has to be a full-time working director holding at least 25% (or with his family) more than 50% of the voting rights whereas if the business was a partnership, a minimum interest, say 1%, would attract the relief.

The relief should be extended to a full-time working director with a 5% interest in a close company.

THE ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE

TECHNICAL REPRESENTATIONS

MISCELLANEOUS

1. Profit Related Pay

It is understood that the response to this new legislation is well below expectations and would suggest that a major reason is the inflexibility of the requirements for participation and the onerous responsibility placed on advisers, such as auditors, who are concerned with their professional indemnity position.

2. Employed or Self-Employed

Despite the assistance provided by pamphlet IR56, there remain a number of small businessmen who are uncertain of their status. Those concerned now have the assistance of a named officer in each Tax District and DHSS local office who is designated to be responsible for all enquiries and decisions. We seek assurance that a written decision by one or other of those departments will be accepted by the other provided the facts given are accurate and remain the same.

3. Fiscal Year End

Accepting that the 5 April date is a matter of historical legacy for purposes of personal taxation, it is out of step with both corporation tax and Government accounting dates. There are good reasons in favour of a change to 31 March whereas there appear to be none in favour of the retention of 5 April.

VALUE ADDED TAX

1. Bad Debt Relief

It is now possible for a registered person to recover VAT on a bad debt where a liquidator certifies that there is no question of a dividend being paid. Cases have been brought to our attention where companies have ceased trading and been struck off the register by Companies House; as a result, creditors have been deprived of relief for the VAT involved on unpaid debts. Relief should be available in such circumstances.

2. Building Construction/Adaptation

In this admittedly difficult area, constant problems arise in distinguishing between zero rates and standard rated work - well exemplified by apparently contradictory decisions by Tribunals. The construction industry is one of the worst hit by the unemployment problem and its activities would be stimulated if all forms of construction/adaptation of buildings were classed as zero rated.

3. Default Surcharge

In our November 1986 representations we expressed to the Financial Secretary the widespread concern as to how Customs & Excise were using the Keith Committee inspired legislation where the only statutory defence against the default charges was the negatively defined notion of 'a reasonable excuse'. In the event our fears have proved to be well founded; we understand that by mid-October, some 320,000 traders had been issued with Surcharge Liability Notices of whom some 140,000 have subsequently received a Surcharge Assessment. Not only in the light of experience but in furtherance of the Government's often expressed wish to encourage the small business fraternity, some modification of attitude has become a matter of extreme urgency.



The Association of  
British Chambers of Commerce

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DIRECTOR-GENERAL: R.G. TAYLOR

Rt. Hon. Norman Lamont, MP  
Financial Secretary  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

1 December 1987

Dear Financial Secretary

1987 FINANCE BILL REPRESENTATIONS

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The Association wishes to add its voice to those who call for a Bill published prior to the Finance Bill and quite separate from the Budget, to deal with desirable technical changes which need proper and thorough consideration and debate not otherwise available within the strict Budget and Finance Bill timetable.

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The Association supports the concept of such funds set up for the benefit of the local community, to be run by reputable bodies such as Chambers of Commerce and to be given BES treatment for tax purposes.



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DIRECTOR-GENERAL: R.G. TAYLOR

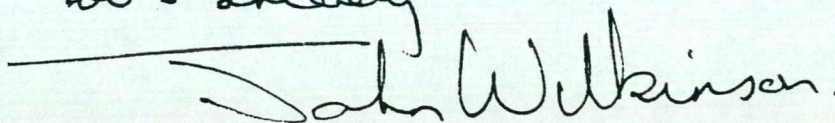
Miss S J Feest  
Financial Secretary's Office  
Room 43/2  
Treasury Chambers  
Parliament Street  
LONDON SW1P 3AG

4 December 1987

Dear Miss Feest

Further to our telephone call of 4 December, I enclose a corrected front sheet of our representations for the 1988 Finance Bill.

Will you please substitute the attached.

*Yours Sincerely*  


John Wilkinson  
Secretary to the Association

CONFIDENTIAL



H.M. CUSTOMS AND EXCISE  
KING'S BEAM HOUSE, MARK LANE  
LONDON EC3R 7HE  
01-626 1515

*ppp*

ECONOMIC SECRETARY

FROM: P JEFFERSON SMITH  
DATE : 8 DECEMBER 1987

cc **Chancellor**  
Chief Secretary  
Financial Secretary  
Paymaster General  
Mr Culpin  
Miss Sinclair  
Mr Michie  
Mr Cropper  
Mr Jenkins  
(Parly Counsel)

STARTER NO 6 : EXCISE : PHASED ABOLITION OF MATCH AND MECHANICAL  
LIGHTER DUTIES

Summary

1. The continued existence of these duties has been the subject of several pre-Budget reviews in recent years and on each occasion the decision has been to retain them, essentially for industrial and employment reasons. Mr Kuczys' minute of 31 December 1986 records the Chancellor's decision that the question to be examined in the run-up to the 1988 Budget is the phased abolition of the duties over 3 to 5 years.

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Internal Circulation:

CPS MR KNOX MR McGUIGAN MR ALLEN MR BOARDMAN  
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115/12/87

2. Since the last review the decline in sales of matches and the growth in sales of lighters have become more pronounced. The major investment programme at Bryant and May's Liverpool match factory has lifted their share of the declining home market, but they have found it difficult to break into the international market. Meanwhile sales of disposable lighters continue to increase sharply. The N Ireland disposable lighter factory, operated by Iwax, is supported by the NI Development Board, who would like to see the lighter duty abolished. It seems unlikely, however, that Iwax will capture a major share of the UK market.

3. A major development in the last year has been the take-over of Bryant and May by the Swedish Match Company. The take-over was the subject of a Monopolies and Merger Commission investigation which in its report accepted that the decline of match sales "could accelerate rapidly if the duty on lighters was to be reduced or removed". Swedish Match made their undertakings to the workforce at Liverpool on security of employment expressly dependent on retention of the excise duty on lighters. The view of Department of Industry officials is that "to reduce the commitment of Swedish Match to the Liverpool manufacturing unit at this critical stage when they are planning BM's future in the UK, European and international markets, could significantly affect their view of its prospects and hence its chance of survival."

4. The case for beginning a phased abolition of the duties is essentially that they are anachronistic. Phased abolition would give the match industry a greater breathing space to adapt than would complete abolition. On the other hand, phased abolition beginning in 1988, besides foregoing a modest sum of revenue and losing UK jobs overall, might well abort longer term prospects for safeguarding employment in Liverpool through Swedish Match plans to concentrate more of its European match manufacture there in 1988. Our recommendation is that 1988 is not the year to begin a phased abolition of these duties, and that both duties should be retained at their present levels for at least the next year.

5. A more detailed review is attached as an annexe.

Ph ✓

P JEFFERSON SMITH

Background

1A. Duties on matches and lighters were both introduced in 1916. The lighter duty was removed in 1921 because of low yield, but it was reimposed by Winston Churchill in 1928 to protect the match revenue, and "to give fair play to the match trade", in the face of increasing imports of competing lighters. In 1986 the matches and lighters market was worth about £125 million, of which matches accounted for 61 per cent by value, disposable lighters 20 per cent and refillable lighters 19 per cent. The present rates of duty are £1.15 per short standard (7200) on matches (equivalent to about 0.75p on a box of 48) and 50p per lighter. These rates have been effective since the 1981 Budget, which included the first increase in the duties since 1949, though they were reduced in 1973 to compensate for the introduction of VAT. Together they raised £19.3 million in 1986/87 (£9.1 million from matches, £10.2 million from lighters). Administratively the duties are easy to collect and their cost, at about 1.0p per £, is just below the Departmental average for all duties.

The match industry

2A. Bryant and May are now the only UK match manufacturer of any size. Their factory is in a high unemployment area of Liverpool, and employs just over 300 people. They have recently completed a £3.5 million investment programme and have one of the two best equipped match factories in Europe (the other one is owned by Swedish Match). This has allowed them to compete successfully with lower quality Eastern European match imports, and UK-made market share has risen in recent years from 50 to 55 per cent of a declining market. Bryant and May are diversifying into book matches, and have attempted to break into export markets, but without an established international sales force have found this difficult, and are at present reliant on the shrinking UK market, where matches face strong competition from cheap imported lighters. In 1980 lighter imports were about 21 million. After the duty increase in 1981, they fell to 11 million, but they have increased again and in 1986 were about 18 million. Lighter sales in 1987 are 36 per cent up on 1986 levels.



3A. Early this year Swedish Match, whose imports have a 28 per cent share of UK match sales, purchased Bryant and May from its ultimate American parent, Allegheny International, as part of a wider deal. This merger was referred to the Monopolies and Mergers Commission (MMC) on competition grounds.

4A. Swedish Match argued that employment in the Bryant and May factory was already highly vulnerable and, even with duties on matches and lighters at their existing levels, forecast that compared with 1986, UK match sales would fall by over 40 per cent by 1990. Even with redundancies along the way, Liverpool match production would cease to be profitable by that date. Match sales in 1987 in fact fell faster than forecast; and the MMC accepted that, were the excise duties to be reduced or removed, the decline would become more severe. Swedish Match told the MMC, however, that if the merger were allowed, it planned in the course of 1988 to close one of its match factories in Sweden and concentrate production at Liverpool and at its remaining modern Swedish factory. This would increase Liverpool production by 25 per cent above previous planned levels for 1988, restoring the production levels of 1986. However, this plan expressly assumes that the level of excise duty on lighters is maintained - "The reduction or abolition of this duty would have very serious consequences for the UK match market, and, therefore, for the Liverpool factory".

5A. In October 1987 the MMC concluded that the rapid decline of the UK match market, and the high degree of competition in the rapidly growing lighter market meant that the merged companies could not raise prices unreasonably, or materially reduce standards of service. The MMC also believed that the merger would provide a greater degree of job security to Bryant and May's Liverpool workforce and secure the continuation of match making in the UK for a longer period than might otherwise be the case. It therefore concluded that the merger was not against the public interest.

### The Mechanical Lighter Industry

●. Most mechanical lighters sold in the UK are imported, and Bryant and May and Swedish Match are major importers of disposable lighters, having between them just under half the market in 1986. Nevertheless, they favour retention of the duties at their existing levels.

7A. Iwax, which has a factory in Northern Ireland, is a major international disposable lighter manufacturer, ranking perhaps fourth in world markets after Tokai, Bic and Feudor. Their Irish factory was established in 1985 with financial aid (some £2 million to date) from the NI Industrial Development Board, is intended to service the whole European market and has a designed capacity of about 40 million lighters a year (about 2 per cent of worldwide lighter capacity). Teething troubles for the past two years continue to limit output to around half this at present, of which most goes for export. Iwax have no UK distribution organisation of their own, and UK sales are handled through a variety of distributors. The factory employs 160 people, with 60 more employed temporarily by sub-contractors until the teething troubles are resolved. When this is done, volume could be expanded considerably without extra labour. Iwax's share of the UK market is modest at present (perhaps 17 per cent or 4.3 million lighters in 1987). Iwax, supported by the Development Board, continue to urge the outright abolition of the lighter duty, and regard phased abolition as an unsatisfactory second best, which would distort sales in advance of anticipated reductions in the duty.

8A. Iwax production is not yet profitable, even with financial aid. Given the substantial overcapacity in lighter production in Europe and worldwide, the Development Board consider that Iwax would not be in a position to compete head on with the market leaders in the ferociously competitive market that would result as lighter duty fell, but that it would establish a useful niche, and be able to divert some of its export production to the more profitable home market.

### Department of Trade and Industry views

9A. DTI officials consider that the Swedish Match take-over of Bryant and May creates a new situation in the UK market. They are reluctant to draw firm conclusions until an economic assessment which they have commissioned has been completed in the second quarter of 1988. Their current views reflect those in the MMC report. They feel that the risk of damage to the UK's declining match industry, with its important employment implications in Liverpool, exceeds the possible benefits that might accrue to the UK lighter industry if the duties were removed.

### Compliance Costs

10A. Phased abolition would have no effect on compliance costs until the duties were finally abolished, when they would, of course, be eliminated.

### Conclusion

11A. There is no good revenue reason for starting to get rid of the duties just now. Although something of an anachronism, and the yield modest, the cost of collection is low. The main consideration remains the industrial one. Bryant and May is an efficient match producer, maintaining employment in inner-city Liverpool, but beleaguered by the rapid fall in UK match sales. Iwax are prospering slowly, and already have the benefit of a home lighter market growing at 36 per cent a year. The Swedish Match Company assistance to Bryant and May could well be checked at the critical moment by the announcement of phased abolition, with predictably faster falls in UK match sales.



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
HM Treasury  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

*Dear Nigel*

CH/EXCHEQUER	
REC.	09 DEC 1987
ACTION	MR MICHIE
ACTION	CST FST PMG EST
COPIES TO	SIR P. MIDDLETON
	MR SCHOLAR
	MR CULPIN
	MISS SINCLAIR
	MISS EYANG
	MR REVOLTA
	MR CROPPER
	MR TYRIE
	MR CALL

*all 2*

*Signatures  
was made*

- 9 DEC 1987

PS/IR PS/CKE

1988 BUDGET: MOTORING TAXATION

I think you shared the view of my predecessors that more emphasis ought to be given to fuel duty and less to VED within motoring taxation. The principal reason for that is the extent of VED evasion. While our information shows that the estimated rate, at 4%, is considerably less than had previously been thought and we have increased our enforcement effort significantly, it remains a subject of concern to the Public Accounts Committee - and to me.

The increase in emphasis on fuel duty has been achieved by keeping the main rates of VED static in recent years and allowing any increase in motoring taxation to come from fuel duty rises. This has the benefit of avoiding the recurrence of the debate on wholesale VED abolition that an actual reduction would promote.

Other main reasons for shifting the balance away from VED that have been mentioned in the past are benefits to our hauliers in Europe, and the remedy provided by an increase in fuel duty to the failure of buses and coaches to cover their 'track costs'. Both of these points remain valid, though there is now some renewed prospect of genuine movement towards vehicle excise approximation in Europe, and the need to remove any competitive disadvantage for our hauliers by unilateral action on VED may be less pressing. On the other hand VED for the "hackney" classes - buses, coaches and taxis - is unique in falling short of track costs. There is also a case for a thorough review of the structure for these classes. But I do not propose any major changes this year.

CHANNON  
TO  
CX  
9 DEC

CONFIDENTIAL

There is now some renewed prospect of genuine movement towards vehicle excise approximation in Europe, and the need to remove any competitive disadvantage for our hauliers by unilateral action on VED may be less pressing. On the other hand the "hackney" class - buses, coaches and taxis - is unique in falling short of track costs. There is also a case for a thorough review of the structure of the class, but I do not propose any changes this year.

I therefore propose the continuation in 1988 of a gradual shift away from VED by freezing the main rates in cash terms, and I would be grateful for your views. As always, there are a number of minor adjustments to the law on vehicle taxation and to some individual rates for certain HGV classes that are under consideration for the Budget and Finance Bill. Our officials are in touch on these, and Peter Bottomley has now written to Peter Lilley.


There is one particular HGV issue to draw to your attention, however. About 400 "special types", used for the carriage of very large or heavy indivisible loads, fall at present within a large tax class (some 26,000 vehicles) that pay only £130 p.a. VED. We have studied them and now know enough about their track costs to be sure they are a very long way short of covering them. The NAO, in their recent study of heavy lorries, have pointed this out, and the issue was one of those raised by the PAC at its recent meeting.

I would therefore like to separate these "special types" out and increase their VED rate. It seems probable that they should pay at least the maximum HGV rate (£3,100). My officials are working out the details - including the question of whether there should be any phasing - and will be putting proposals to yours shortly.

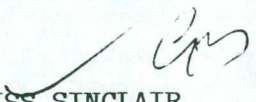
  
PAUL CHANNON

CONFIDENTIAL

SECRET

FROM: MRS T C BURNHAMS 

DATE: 9 December 1987

1. MISS SINCLAIR  10/12
2. FINANCIAL SECRETARY

cc **Chancellor**  
 Chief Secretary  
 Paymaster General  
 Economic Secretary  
 Sir Peter Middleton  
 Mr Cassell  
 Mr Scholar  
 Mr Culpin  
 Miss Evans  
 Mr Cropper  
 Mr Call  
 Mr Tyrie  
 PS/IR  
 MR Isaacs )  
 Mr Painter ) IR  
 Mr Beighton )  
 Mr Shaw  
 PS/C&E  
 Mr R Allen C&E  
 Mr Jenkins - Parliamentary  
 Counsel

### 1988 FINANCE BILL STARTERS

I attach a revised edition of the Starters List.

2. You will wish to note that 3 new starters have now been added and reference sheets for each are attached, together with revised reference sheets for starters number 1 and 151. Two of the new starters, numbers 117 and 118, replace starter number 454 (Shelters exercise) which has been dropped. The third new starter number 152 is concerned with occupational pensions. There are now a total of 98 starters of which it has been decided to drop 18. Of the remaining 80 - decisions to include (or provisionally include) have been taken in respect of 43 and a further 18 are under consideration. The Under Secretary of State for Transport has now written to the Economic Secretary about the 7 Transport Starters; one of these has already been dropped and a submission on the remaining 6 will be made by FP shortly. In addition, 13 other submissions are awaited - 8 from the Inland Revenue and 5 from Customs and Excise.

3. So far, instructions to Counsel have gone forward in respect of 23 of the starters.

  
 MRS T C BURNHAMS

C O N F I D E N T I A L

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

										Date	4 December 1987	
										10	11	
1	2	3	4	5	6	7	8	9				
No.	Description	Status	Date latest subm	Revenue £m		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments		
				<u>cost(-)/Yield(+)</u> 1988/89	<u>cost(-)/Yield(+)</u> 1989/90	1/4/89	1/4/90					
1	Duty rates	NSM	-	+535	+1195	Nil	Nil	2 pages and 12 pages of schedules		1988-89 revenue yield is based on revalorisation of <b>3.6%</b> . 1989-90 yield assumes a further revalorisation of <b>3.8%</b> .		
2	Duty differential for unleaded petrol	NSM	-	Variable		Nil	Nil	5 lines		Revenue cost of £0.6M per 1p tax differential for every percentage point of unleaded petrol market share		
3	Definition of process of rendering wine or made-wine "sparkling"	I	4.11.87	Nil	Nil	Nil	Nil	10 lines				
4	Restructuring of wine and made-wine duties	I	4.11.87	Neg	Neg	Nil	Nil	2 pages				
5	Pool betting duty structure	D	20.11.87	Neg	Neg	Nil	Nil	31 lines				

C O N F I D E N T I A L

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
6	Phased abolition of matches and mechanical lighters duties	NSM	-	-6	-12	Nil	-9	10 lines		
7	Abolition of minimum duty charge for beer	I	4.11.87	Neg	Neg	Nil	Nil	20 lines		
8	Power to assess beer, wine and cider duties	D	4.11.87	Neg	Neg	Nil	Nil	5 lines		
9	Remission of duty on spirits for medical or scientific use	I	4.11.87	Nil	Nil	Neg	Neg	15 lines		
10	Oil duties relief	D	20.11.87	Nil	Nil	Nil	Nil	23 lines		
11	Relief from duty of goods for testing	I	4.11.87	Nil	Nil	Nil	Nil	10 lines		



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CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 4 December 1987										
1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m		Staff Effect		Legislation		Other Comments
				cost(-)/Yield(+)		1/4/89	1/4/90	Length	Date Inst. sent to Counsel	
30	Keith review	I	9.10.87	Neg	Neg	Nil	Nil	4-5 pages	25.11.87 (Part)	Revenue cost of £5M in full year after 1990-91
31	Revalorisation of registration and deregistration thresholds	NSM	-	Neg	Neg	Nil	Nil	None		Not applicable
32	Motor expenses	D	9.11.87	Neg	Neg	Nil	Nil	5-10 lines		
33	Value of used goods	D	18.11.87	Nil	Nil	Nil	Nil	6-7 lines		
34	Tax on supply to be liability of person completing the tax invoice	I	13.11.87	+5	+5	Nil	Nil	5 lines		Revenue yield likely to increase if loophole becomes more widely exploited
35	Amendments to VAT Act 1983 Schedule 1	I	2.11.87.	Neg	Neg	Nil	Nil	10 lines		
36	Computer evidence (Scotland)	D	3.11.87.	Nil	Nil	Nil	Nil	1 line		

C O N F I D E N T I A L

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+) 1988/89      1989/90		Staff Effect 1/4/89    1/4/90		Legislation Length	Date Inst. sent to Counsel	Other Comments
60	Disclosure of importers' details	NSM	-	Neg	Neg	Neg	Neg	1 page		
61	Search of persons	I	12.11.87.	Nil	Nil	Nil	Nil	35 lines		
62	Penalty for customs fraud	I	17.9.87.	Nil	Nil	Nil	Nil	12 lines		
63	Prosecution time limits	I	17.9.87.	Neg	Neg	Neg	Neg	6 lines		
64	CAP warehouse approval and control	UCM	20.11.87	Nil	Nil	Nil	Nil	12 lines		

Date 4 December 1987

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
100	Income tax: allowances, thresholds & rates	UCM	14.7.87	Depends on decisions	Depends on decisions			2/3		Cost of 3.7% indexation of thresholds (£1060m in a full year) included in forecast.
101	Independent taxation of husband & wife	I*	16.9.87	Nil	Nil	+110	+770	25	3.11.87 (part)	Implementation in 1990/91. Full year cost £700m.
102	Additional personal allowance: conversion to social security provision.	UCM	3.9.87	Depends on decisions	Depends on decisions			1/4		DHSS produced initial paper. Meeting 4 Dec to discuss it
103	Minor personal allowances - abolition	I	9.10.87	+10		-75	-100	4 lines + short repeals schedule	Drafted	
104	Benefits in kind - misc.	UCM	20.10.87	Depends on decisions	Depends on decisions			Depends on decisions		

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1988/89	1989/90	1/4/89	1/4/90			
105	Benefits in kind - threshold	UCM	16.7.87	Depends on decisions		Depends on decisions		1/4		Cost & manpower effects depend on level of threshold and whether or not it includes car car fuel benefits.
106	Benefits in kind - car & car fuel benefits	I	22.10.87	Depends on decisions		Depends on decisions		Possibly up to 1/2		Changes to scale charges made by Treasury Order, but legislation may be necessary if changes to structure of car benefit scale to be made.
107	Benefits in kind - third party entertainment	I	16.7.87	Neg (-)	Neg (-)	Nil	Nil	6 (approx)	18.11.87	Exemption announced by FST on 25.9.87.

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub <sup>mn</sup>	Revenue fm		Staff Effect		Legislation	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)				Length		
				1988/89	1989/90	1/4/89	1/4/90			
108	Benefits in kind - car parking	UCM	30.7.87	Depends on decisions		Depends on decisions		1/2 - 1		Estimates of cost, manpower & length of legn will need to be altered if car parking only partially exempted. Estimate of cost & manpower take into account that very little of charge is currently collected.
109	Benefits in kind - luncheon vouchers	NSM				Estimates not yet available				It is not certain that legislation would be required.

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
110	Amendments to PRP legislation	UCM/ NSM	3.9.87	Not known (probably negligible cost and manpower effect).					22.9.87 19.10.87 (part)	Ministers have approved drafting one item. Submissions on others will be made as soon as possible, when early reactions to the new legislation and Revenue's recent Guidance Notes can be assessed.
111	Review of S79 Unapproved employee share schemes.	I	22.7.87	Neg		Neg		5	4.9.87	Draft clauses published 26.10.87.
112	Employee priority shares in a public offer.	I	18.9.87	Neg		Neg		1/2	Drafted	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
				<u>Limit £30,000</u>						
113	Mortgage Interest Relief Limit for 1988-89	UCM	23.9.87	Nil	Nil	Nil	Nil		Few lines	
				<u>Limit £35,000</u>						
				<b>Depends on decisions</b>		-12	-10			
				<u>Limit £40,000</u>						
				<b>Depends on decisions</b>		-25	-20			
114	Mortgage Interest Relief: Residence Basis	UCM	23.9.87	<u>Limit £30,000</u> August 1988 start		<b>Depends on decisions</b>		+25-30	+25-30	2 or 3
				<u>Limit £35,000</u> August 1988 start		<b>Depends on decisions</b>		+25-30	+25-30	
				<u>Alternative approach</u> April 1988 start		<b>Depends on decisions</b>		+25-30	+25-30	
115	Mortgage interest relief: restriction of relief for home improvements	UCM	27.10.87	<b>Depends on decisions</b>		-150	-200		1	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
116	FA 1984 Employee Share Option Schemes: Restricted Shares	I	5.10.87	Neg		Neg		8 lines	Drafted	
117	Redundancy payments	I*	23.10.87	In the range +1.5 to -10		Nil	Nil	1/2 - 1		The precise yield/cost will depend on behavioural effects. An increase in the threshold is likely to result in an uplift in the size of payments. Formerly part of Starter 454 (Shelters exercise).
118	Premiums for leases: top-slicing	I*	23.10.87	Neg	Neg	Neg	Neg	1/2		Formerly part of Starter 454 (Shelters exercise)
150	Maintenance payments and covenants.	I	13.11.87	Depends on decisions		Depends on decisions		Depends on decisions		



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
151	Personal pensions - minor changes	I	18.11.87	+10	+10	To be assessed		1 1/2	21.10.87 (part)	
152	Occupational pensions: accelerated accrual	UCM	18.11.87	Neg	Neg	Nil	Nil	1/2		No decision until outcome known of wider review by Mr Byatt
200	Close companies - apportionment of interest	D	5.11.87	Neg	Neg	Neg	Neg	---	---	
201	CT rate for FY 1988	NSM		+10	+350	Nil	Nil	2 lines		
202	Small companies rate of CT for FY 1988	NSM		Neg	-100	Nil	Nil	4-9 lines		
203	BES	UCM	27.11.87		N/K		N/K	N/K		
204	Capital allowances: pre-consolidation amendments	D	20.11.87	Depends on decisions but should be very small.		Negligible		---	---	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub <sup>mm</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
205	Capital allowances: transfers by exempt bodies.	I	12.10.87	Nil	Nil	Negligible		1/2	30.11.87	Potential revenue saving long-term, say, £540m (net present value).
206	Capital allowances: fire safety etc	UCM	27.11.87	Depends on decisions		Negligible		Up to 1/2		
208	Capital allowances: enterprise zones	D	21.10.87	Depends on decisions		Negligible		---	--	
209	Capital allowances: assured tenancies	NSM		Depends on decisions		Negligible		Depends on decisions		Depends on developments in Housing Policy.
210	Exchange gains and losses	D		Depends on decisions		Negligible		---	--	
211	Abolition of relief for business entertaining of overseas customers	I	11.11.87	N/K	N/K	Negligible saving		say 1/2	27.11.87	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
212	Small advertising gifts	D	11.11.87	Increase to:		Negligible saving		---	--	
				£15	Nil	-3				
				£20	Nil	-4				
				£25	Nil	-5				
213	In-year assessment on Schedule D income	UCM	12.11.87	+60 to 70		Saving of at least 40		say 1/2		This starter would avoid what would otherwise be a once and for all revenue cost of £60-70 and a continuing staff cost of at least 40, if the Courts uphold the Special Commissioners decision.
214	Lloyd's RIC leavers	UCM	19.11.87	Probably negligible		Probably small		3/4		Cost and staff effects depend on details of relief.

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submm	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
215	Lloyd's Special Reserve Fund (SRF)	UCM	17.11.87	Neg	-3 to -20	Neg	Nil to + or - 10	Up to 1		Cost, staff effects and length of legislation all dependent on nature of change - for discussion with Lloyd's.
216	Lloyd's - reform of assessment and collection system.	NSM		Neg	Neg	Neg	-20 to -50	Up to 2		Staffing effects and length of legislation dependent on details of changes - for discussion with Lloyd's.
217	Pension fund repayments	NSM			[-100]		Nil	1/2		
250	IHT - rates and bands	NSM		-25	-60		Indexation alone will add to staff needs (increase of 20% in caseload)	1/2		Costs reflect effect of automatic indexation and are already assumed in the forecast.

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
251	IHT - exemption for transfers to political parties	I	9.11.87	Nil	Nil	Nil	Nil	1/2	20.11.87	
252	CGT: main proposal	I*	1.7.87	Nil	-100	Nil	Nil	25	6.8.87 21.10.87 30.10.87 (part)	Full year cost -£300m
253	CGT - husband and wife	I*	6.8.87	Nil	Nil	Nil	Nil	1/4	Drafted	Full year cost -£90m.
254	CGT - annual exempt amount	I		Nil	Nil	Nil	+15	Few lines	18.11.87	
255	CGT - definition of an investment trust.	I	17.7.87	Nil	Nil	Nil	Nil	1	Drafted	
256	CGT - extension of rollover relief to satellites and spacecraft	I	24.7.87		Yield effect fluctuates from year to year - in some years nil, in others could be several million.	Neg	Neg	11 lines	Drafted	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submm	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
257	CGT - capital losses on building society and co-operative shares.	I	18.6.87	Impossible to quantify. Revenue at risk if no action taken.		Neg	Neg	1/3	Drafted	
258	CGT - indexation and groups.	I*	12.10.87	Substantial revenue at risk if no action taken.		Neg	Neg	Depends on decisions. Could be up to 2 pages.	4.11.87	
259	CGT - intra-group share exchanges	I*	21.9.87	Legislation is to prevent, for the future, both avoidance of tax and, in other cases, the charging of gains twice.		Nil	Nil	Up to 1/3	Drafted	
260	CGT: milk and potato quota	I	23.9.87		Neg	-5 or less	Neg	Neg	1/2	Relief announced 29.10.87.
300	Stamp duty threshold:	UCM	10.11.87							FST prefers to stay with present regime and decide threshold nearer Budget Day.
	(a) £30,000				Nil	Nil	+10	+10	Nil	
	(b) £40,000				-270	-360	-10	-10	1/3	
	(c) £50,000				-420	-580	-20	-20	1/3	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
301	Stamp duty on shares	D	23.11.87	-480	-480	Nil	Nil	---	--	
302	Stamp duty - Channel Tunnel	I	21.9.87	Neg	Neg	Neg	Neg	1/3	22.10.87	
303	Abolition of Unit Trust Instrument Duty	D	24.11.87	-30	-30	Neg	Neg	---	--	
350	PRT: Expenditure claims during safeguard periods.	D	13.11.87	Neg	Neg	Nil	Nil	---	--	Revenue Statement of Practice to be issued.
351	PRT: Variations in assessments or determinations	D		Nil	Nil	Nil	Nil	---	--	
352	PRT: Expenditure relief - tariffing arrangements	D	21.10.87	?+5	?+10	Nil	Nil	---	--	EST agreed that issues should be reviewed for FB 1989.
353	Oil licence gains: work programme farm outs	I	20.8.87	Neg	Neg	Nil	Nil	2		

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
354	North Sea Fiscal Regime Reviews	NSM	21.7.87 (work programme only - no options for decisions)	N/K	N/K	N/K	N/K	N/K		
400	Company residence and migration	I*	19.11.87	Without S482 the loss of revenue could be large (the amount must be speculative but could exceed £100m).		Nil	Nil	10-15		
450	Tax appeals - General Commissioners for Northern Ireland	I*	14.7.87	Nil		Nil		1-2 Short clause and schedule of repeals	12.8.87 (part)	Consultative document was issued seeking views by 20.11.87. Final decisions not likely until late December.



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 4 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub <sup>mm</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
451	Tax appeals - place of hearing by General Commissioners	UCM	20.10.87	Nil			15-20* (Inspector level)	1		Measure avoids additional staff need. Consultative document issued 5.11.87
452	Keith Committee administrative improvements	I	16.10.87	N/K	N/K	N/K	N/K	7	25.11.87 30.11.87 (part)	
453	Mr Monck's Working Group proposal	I	6.5.87	Nil	Neg		Negligible	2		
454	Shelters exercise	D	23.10.87	N/K	N/K	N/K	N/K	---	--	Starter split into component parts - Starters 117 & 118.

## CONFIDENTIAL

BUDGET STARTERS: SUMMARY SHEETS  
DEPARTMENT OF TRANSPORT

									Date December 1987	
1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub mn	Revenue £m		Staff Effect		Legislation	Date inst sent to Counsel	Other Comments
				Cost(-)/Yield(+) 1988/89	1989/90	1/4/89	1/4/90	Length		
600	VED: powers to Combat Under- Licensing	NSM		Neg+		Neg		6-8 lines		
601	VED: Changes to recovery vehicle tax class	NSM		Nil		Nil	Nil	About ¼ page		
630	Dishonoured cheques provision to claim duty for the period a void vehicle excise licence was held by an Offender	NSM		Neg	Neg	Neg	Neg	1 page		
631	Vehicle registration and licensing minor amendments	NSM		Nil		Nil		½ Page		

## CONFIDENTIAL

## BUDGET STARTERS: SUMMARY SHEETS

## DEPARTMENT OF TRANSPORT

									Date December 1987	
1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub mn	Revenue £m		Staff Effect		Legislation Length	Date inst sent to Counsel	Other Comments
				Cost(-)/Yield(+) 1988/89	1989/90	1/4/89	1/4/90			
632	Redefinition of 'Community Service D Bus' (previously 'playbus') to make these vehicles eligible for restricted HGV rate of VED			-£0.3m	-£0.3m	Nil		3-4 lines		
633	Change in criterion for concessionary rate for vehicles 'registered' pre 1.1.47 to manufactured pre 1.1.47	NSM		small		-	-	6-8 lines		
634	Ambulance and new welfare vehicle taxation classes	NSM		Neg Cost		Nil	Nil	1 page +4 lines		

## CONFIDENTIAL

## BUDGET STARTERS: SUMMARY SHEETS

## TREASURY

1	2	3	4	5	6	7	8	9	10	11
									Date December 1987	
No	Description	Status	Date latest sub mn	Revenue £m Cost(-)/Yield(+) 1988/89 1989/90		Staff Effect 1/4/89 1/4/90		Legislation Length	Date inst sent to Counsel	Other Comments
650	Public Accounts & Charges Act 1891: technical amendment to Section 2(3)	I	17/11	Neg	Neg	Neg	Neg	Say 5-10 lines		Administrative simplification and avoiding illegality of present Treasury practice
651	GILTS REDEMPTION PROCEDURES	I	20/11	Neg	Neg	Nil	Nil	1-2 pages		simplification of procedures for repaying gilts redemption moneys. Minor staff savings at Bank.
652	GILTS: SMALL ESTATES	I	20/11	Neg	Neg	Nil	Nil	1-2 pages		

BUDGET STARTER: REFERENCE SHEET  
TITLE: EXCISE:DUTY RATES

STARTER NUMBER: 1

CLASSIFICATION: A

Revenue £m*		Staff effect*		Length of legislation
cost(-)/yield(+)				
1988/89	1989/90	(Full year)	1/4/89	1/4/90

+ 535	+ 1195		Nil	Nil	2 pages plus 12 pages of schedule
-------	--------	--	-----	-----	--------------------------------------

Minister in lead	Date instructions sent to Counsel	PCTA or equivalent resolution required
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Chancellor		Yes. Up to 8 separate resolutions
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**ORIGIN OF STARTER:** Customs. (Treasury for Vehicle Excise Duty (VED))

**BACKGROUND AND COMMENTS:**

Revenue yield is based on revalorisation of all specific excise duties (including VED) by 3.6 per cent, the inflation rate assumed for the 12 months prior to December 1987. The 1989-90 yield is based on a further revalorisation of 3.8 per cent.

The official Treasury (FP) has policy responsibility for VED. Of the estimated length of legislation, 1 page plus 11 pages of schedule are attributable to VED.

A submission on the excise duty rates will be made before Christmas.

**OFFICIAL IN LEAD:** P R H ALLEN **TELEPHONE** 2913 5023

**OFFICIAL IN SUPPORT:** MS A FRENCH **TELEPHONE** 2913 5059

**FP CONTACT:** R G MICHIE **TELEPHONE** 270 4922

**\*HEALTH WARNING:** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

Submission made (date)	Approval to draft (date)	Instructions sent (date)	Drafting completed
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Date of Issue: 27 November 1987

BUDGET STARTER: REFERENCE SHEET

TITLE: Redundancy payments

STARTER NUMBER: 117

CLASSIFICATION: A

Revenue fm* cost(-)/yield(+)		(Full year)	Staff effects*		Length of legislation*
1988/89	1989/90		1/4/89	1/4/90	
Depending on behavioural effects in range +1.5 to -10			Nil	Nil	1/2 - 1 Page

Minister in lead	Date instructions sent to Counsel	PCTA or equivalent resolution required
FST		Yes

ORIGIN OF STARTER: Inland Revenue

## BACKGROUND AND COMMENTS:

Ministers have provisionally agreed to the increase of the threshold below which redundancy and certain other lump sum payments are not taxed from £25,000 to £30,000, and to abolish the special spreading reliefs for payments above £25,000 up to £75,000.

OFFICIAL IN LEAD:	Miss A M RHODES	TELEPHONE	2541 6303
OFFICIAL IN SUPPORT:	S S WILCOX	TELEPHONE	2541 6383
FP CONTACT:	Miss M HAY	TELEPHONE	270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

Date of Issue: 27 November 1987

BUDGET STARTER: REFERENCE SHEET

TITLE: Premiums for leases: top slicing

STARTER NUMBER: 118

CLASSIFICATION: A

Revenue fm* cost(-)/yield(+)		(Full year)	Staff effects*		Length of legislation*
1988/89	1989/90		1/4/89	1/4/90	
	Neg		Neg		Perhaps 1/2 Page
Minister in lead		Date instructions sent to Counsel	PCTA or equivalent resolution required		
	FST		No		

ORIGIN OF STARTER: Inland Revenue

## BACKGROUND AND COMMENTS:

Provisions allow top-slicing relief for tax chargeable on premiums for leases and certain other payments.

OFFICIAL IN LEAD: M J G ELLIOTT

TELEPHONE 2541 6412

OFFICIAL IN SUPPORT: J R STREETER

TELEPHONE 2541 6589

FP CONTACT: Miss M HAY

TELEPHONE 270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

Date of issue: October 1987

**BUDGET STARTER: REFERENCE SHEET**

**TITLE:** Personal Pensions: minor changes

**STARTER NUMBER:** 151

**CLASSIFICATION:** B1

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Revenue fm*		(Full year)	Staff effects*		Length of legislation*
cost(-)/yield(+)			1/4/89	1/4/90	
1988/89	1989/90				
+10	+10		To be assessed		1 1/2 Page

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Minister in lead	Date instructions sent to Counsel	PCTA or equivalent resolution required
FST		Yes

---

**ORIGIN OF STARTER:** DHSS

**BACKGROUND AND COMMENTS:**

Delay in implementing Financial Services Act prompted DHSS to postpone introduction of personal pensions from 4 January 1988 to 1 July 1988. Consequent extension of retirement annuities regime. The yield shown is the yield from the delay. The revised costs of implementing the personal pensions proposals will be fm-15 in 1988/89 and fm-40 in 1989/90. Starter also covers other minor amendments. The main one corrects an unintended effect of the legislation where an employee leaves his occupational scheme in mid-year to contract out of SERPS with a personal pension.

**OFFICIAL IN LEAD:** N C MUNRO **TELEPHONE** 2541 6487  
**OFFICIAL IN SUPPORT:** J D HINTON **TELEPHONE** 2541 7565  
**FP CONTACT:** Miss M HAY **TELEPHONE** 270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.



Date of issue: 27 November 1987

**BUDGET STARTER: REFERENCE SHEET**

**TITLE:** Occupational pensions: `accelerated accrual` of pension benefits

**STARTER NUMBER:** 152

**CLASSIFICATION:** B2

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Revenue fm*		(Full year)	Staff effects*		Length of legislation*
cost(-)/yield(+)			1/4/89	1/4/90	
1988/89	1989/90				
Neg	Neg		Nil	Nil	1/2 Page

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Minister in lead	Date instructions sent to Counsel	PCTA or equivalent resolution required
FST		Yes

---

**ORIGIN OF STARTER:** FST

**BACKGROUND AND COMMENTS:**

Schedule 3 Finance (No 2) Act 1987 imposed new restrictions on accelerated accrual of pension benefits. With effect from 17 March 1987, new members of occupational schemes could only obtain maximum pensions of two-thirds final salary after 20 years service to retirement (previously 10). In principle this applies to all new scheme members. FST has asked for consideration of a measure more precisely targeted on high earners.

**OFFICIAL IN LEAD:** N C MUNRO **TELEPHONE** 2541 6487

**OFFICIAL IN SUPPORT:** J D HINTON **TELEPHONE** 2541 7565

**FP CONTACT:** Miss M HAY **TELEPHONE** 270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

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SECRET

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- 451 Tax appeals: place of hearing by General Commissioners
- 452 Keith Committee administrative improvements
- 453 Mr Monck's Working Group proposal
- 454 Shelters exercise



H.M. CUSTOMS AND EXCISE  
 KING'S BEAM HOUSE, MARK LANE  
 LONDON, EC3R 7HE

*pmf*

*[Handwritten signature]*

01-626 1515 Please Dial my Extension Direct:  
 Use Code (01)-382 followed by  
 Extension Number 5.....072.

**CONFIDENTIAL**

FROM: W D WHITMORE

DATE: 9 December 1987

Economic Secretary

cc **PS/Chancellor**  
 PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 Mr Scholar  
 Mr Culpin  
 Miss Sinclair  
 Mr Michie  
 Mr Cropper  
 Mr Jenkins (Parliamentary  
 Counsel)

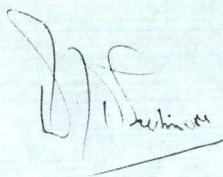
**REVIEW OF THE STRUCTURE OF THE WINE AND MADE-WINE DUTIES (STARTER  
 NO 4): FORTIFIED WINES AND MADE-WINES**

1. There has been a development which you will wish to take into account and discuss at the meeting with Mr Jefferson Smith next Wednesday.
  
2. When we met representatives of the sherry shippers and the Sherry Institute of Spain on Monday (paragraph 10 of Mr Jefferson Smith's note of 3 December), they told us that a formal complaint has been lodged with the Commission (this has been confirmed by UKREP). They also told us that the complaint is wider in scope than previously indicated and now has two elements. The first is duty-paid blending. To this has now been added an allegation that the current borderline of "not exceeding 15%" between the lower and middle duty bands is discriminatory.

---

Internal circ:	CPS Mr Knox Solicitor Mr Nissen	Mr Jefferson Smith (OR) Mr Allen Mr Breuer Mr Fotherby	Mrs Hamill Mr Hawes Ms Noonan
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3. The borderline was changed from "less than 15%" to its present definition after considerable political pressure during the passage of the 1985 Finance Bill to accommodate Cyprus sherry interests. To take advantage of favourable quota arrangements the strength of Cyprus sherry must not be below 15% and it is imported and sold at exactly 15%.
4. The Spanish sherry representatives said that both parts of the complaint have equal weight and that Spain regarded it as a matter of principle that all products sold as sherry in the UK should bear the same duty. They would regard the complaint as being met by lowering the borderline for fortified wines to 13%, with a single rate for the enlarged duty band. Such a change would be strongly opposed by British wine producers, the Cypriots and, possibly, the Italians as vermouth would be caught.
5. Legal advice is that if we were taken to the European Court on the blending issue we would lose. There was a simple solution available, that of banning duty-paid blending; but the introduction of the second element in the complaint complicates matters significantly. We will have to wait until we get further information about the Spanish case on the 15% borderline in this respect before we can arrive at a firm judgement about its strength. However, we are seeking preliminary legal advice.
6. The Spanish sherry representatives indicated that they intend to make a press announcement about the complaint to the Commission on Friday. We do not expect this to arouse great interest, but we have alerted our Press Office and that of the Treasury.



W D WHITMORE

C O N F I D E N T I A L



FROM: P D P BARNES  
 DATE: 10 December 1987

MR JEFFERSON-SMITH - C&amp;E

cc PS/Chancellor  
 PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Paymaster General  
 Mr Culpin  
 Miss Sinclair  
 Mr Michie  
 Mr Cropper  
 Mr Jenkins - Parly Counsel  
 Mr Knox - C&E  
 Mr McGuigan - C&E  
 Mr Allen - C&E  
 PS/C&E

STARTER NO.6 : EXCISE : PHASED ABOLITION OF MATCH AND MECHANICAL LIGHTER DUTIES

The Economic Secretary was grateful for your submission of 8 December.

2. The Economic Secretary agrees that this Starter should be dropped.

3. The Economic Secretary thinks that there may be a case of reconsidering this next year if Swedish Match concentrate their operations in Liverpool.

fb

P D P BARNES  
 Private Secretary

C O N F I D E N T I A L



APB/ST  
8/2  
14/12

FROM: MISS S J FEEST  
DATE: 14 December 1987

PS/CHANCELLOR

*Ch/Agree?*  
*25 19/12*  
*Agree; this is affects your's unit private sector.*

- cc PS/Chief Secretary
- Mr Monck
- Mr Burgner
- Mr Scholar
- Miss Sinclair
- Mr Cropper
- Mr Jenkins OPC
- Mr J Reed IR
- Mr McGivern IR
- PS/IR

BES: FINANCE BILL STARTER 203

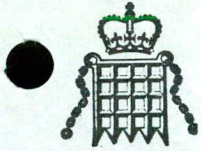
The Financial Secretary has seen Mr Reed's minute of 27 November 1987.

2. He is strongly in favour of an investment ceiling and would like provisional instructions to be sent to Parliamentary Counsel.
3. He is also in favour of action against secured contracting.
4. He would like to include the clause on Oil Exploration.
5. He would like to consider the £5000 limit on carry-back of relief further.
6. Finally; he agrees that the final decisions can be made in January.

*Susan Feest*

SUSAN FEEST  
(Assistant Private Secretary)





H.M. CUSTOMS AND EXCISE  
KING'S BEAM HOUSE, MARK LANE  
LONDON, EC3R 7HE  
01-626 1515

1/21/87  
Please Dial my Extension Direct:  
Use Code (01)-382 followed by  
Extension Number 5..072...

*W D Whitmore*

FROM: W D WHITMORE

DATE: 14 December 1987

Mr Lilley

cc PS/Chancellor  
Mr Scholar  
Mr Culpin  
Miss Sinclair  
Mr Michie  
Mr Cropper

**REVIEW OF THE STRUCTURE OF THE WINE AND MADE-WINE DUTIES (STARTER  
NO 4) FORTIFIED WINES AND MADE-WINES**

1. You asked for a note on why it is necessary to accommodate the Cypriot sherry interests.
2. The following paragraphs briefly sketch in the background and you may wish to discuss the issue during Wednesday's meeting.
3. The UK market for all sherry has been in a slow decline for some years. This country is Cyprus sherry's main outlet and has been particularly hard hit. It is positioned at the lower end of the market and is markedly price sensitive. It was adversely affected by the 1984 Finance Act which, amongst other things, increased the duty differential between light and fortified wines and changed the borderline from "not exceeding 15%" to "less than 15%". The Cyprus sherry interests responded by taking advantage of a loophole whereby duty-paid blending reduced the duty liability.

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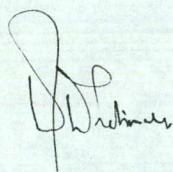
Internal circulation:

CPS Mr Knox Mr Jefferson Smith Mr Allen Mr Hawes Ms Noonan

4. The 1985 Finance Bill introduced a clause, aimed principally at vermouth, to close the loophole. During the Committee Stage the Cyprus sherry interests mounted a sustained campaign, which included approaches at Ministerial level by the Cyprus Government in Nicosia and here.

5. Cyprus sherry is not really significant from a revenue point of view. The arguments centred on its place in the Cypriot economy and wider British interests. Some 35,000 Cypriot families, 90,000 people, were said to be involved in grape production and a high proportion of them would be badly affected if sherry exports were to cease; with a consequently serious impact on the Cypriot economy. Also the Foreign Office argued strongly for favourable treatment stating that it was important for a number of reasons that the Cypriots regarded us, with Greece, as their main champions within the EC. These reasons included UK interests in Cyprus, notably the Sovereign Base Areas.

6. The Minister of State decided to reverse the 1984 change in the 15% borderline, whilst closing the blending loophole.



W D WHITMORE

C O N F I D E N T I A L



FROM: P D P BARNES  
DATE: 17 December 1987

MR JEFFERSON-SMITH - C&amp;E

cc PS/Chancellor  
PS/Paymaster General  
Mr Scholar  
Mr Culpin  
Mr Edwards  
Miss Sinclair  
Mr Michie  
Mr Cropper  
  
Mr Knox - C&E  
Mr Jefferson-Smith - C&E  
Mr Allen - C&E  
Mr Whitmore - C&E  
Mr Hawes - C&E  
PS/C&E

Mr Jenkins - Parly Counsel

REVIEW OF THE STRUCTURE OF THE WINE AND MADE-WINE DUTIES (STARTER  
NO.4) FORTIFIED WINES AND MADE-WINES

The Economic Secretary was grateful to you, Mr Whitmore, Mr Hawes and Mr Cropper for coming to see him yesterday.

Sherry

2. You said that the position had been complicated by the widening of the scope of the Spaniards complaint to the Commission to include an allegation that the current border line of "not exceeding 15%" between lower and middle duty bands was discriminatory (as recorded in Mr Whitmore's submission of 9 December). You said that we would want to contest the Spaniards' claim on this point, since not to do so would not only offend the Cypriots but would also leave us open to a consequent attack on British sherry.

3. You said that there were still arguments for making a concession on duty-paid blending before we were forced to do

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so. There was a risk that the Commission would act quickly after the Budget, requiring us to introduce a clause at Committee Stage. But this would be unlikely. There were still a number of stages before proceedings would start in the European Court: the Commission would usually write to Member States giving them one or two months in which to reply, and the reply could promise action rather than taking it immediately. A more serious danger would arise if a UK importer took action in the UK Courts seeking a declaration that the true rate of duty was lower than that presently being levied. But as there was no precise precedent for this procedure, the outcome of any such court action could not be predicted.

4. On the other hand, the Spaniards most recent move had strengthened the arguments for delay. Delay would preserve the existing advantage for British and Cypriot sherry producers as long as possible, and as the Spaniards would clearly not drop their case if we made a voluntary concession on duty-paid blending, there seemed little point in making such a concession before we had to.

5. The Economic Secretary agreed with this assessment, and said that we should make no concessions on duty-paid blending for the moment. Nonetheless, the Economic Secretary said that Parliamentary Counsel should be asked to draft a clause on this point, so that we had draft legislation prepared should we need it.

**Coolers**

6. You said that having examined the options you thought that the most attractive was to link duty on coolers to the wine rate.

7. The question was whether the change be made this year. On the one hand, the change would be unpopular with brewers, especially if this was combined with the abolition of the minimum beer duty and a more than revalorising increase in duty generally.

8. On the other hand, if minimum duty were to be abolished this year, then it would probably be easier, especially in Finance

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Bill Committee terms, not to have to face criticism from the brewers' lobby in two consecutive years. There was something to be said for taking the initiative rather than waiting until our hand was forced. And there might also be an advantage in taking action while the market for coolers was still of a reasonably small size.

9. The Economic Secretary agreed with this. He thought that moving on coolers and beer in the same year would usefully placate the anti-alcohol lobby. He would write to colleagues in the Ministerial Group on Alcohol Misuse seeking their views. The Economic Secretary also authorised you to discuss the proposal for beer and coolers in confidence with MAFF.

Cider

10. The low present rate of cider duty was discussed. You said that there were drawbacks in reducing the alcohol level at which cider was dutiable as wine. Reducing the level to, say, 7% would be harder to defend than the present 8½%, which, under EC law, was the lowest permissible strength for a product to describe itself as wine. Secondly, the effect of such a change could not be predicted with accuracy since the strength of cider was not declared, although you thought that most ciders had a strength of around 4%, so that a reduction of the extent proposed would probably achieve little.


11. You suggested that a better approach would be the gradual reduction of the duty differential between cider and beer. Any further consideration of the structure of the cider duty would best be deferred until after the introduction of strength labelling in May 1988. The Economic Secretary agreed.

R<sub>B</sub>

P D P BARNES  
Private Secretary

CONFIDENTIAL

1. MISS SINCLAIR<sup>A</sup>
2. ECONOMIC SECRETARY

FROM: R G MICHIE   
 DATE: 22 December 1987

cc **Chancellor**  
 Chief Secretary  
 Financial Secretary  
 Paymaster General  
 Sir P Middleton  
 Mr Scholar  
 Mr Culpin  
 Mr Rcvolta  
 Mrs Burnhams  
 Mr Cropper  
 Mr Tyrie  
 Mr Call  
 PS/Customs and Excise  
 PS/Inland Revenue

#### 1988 FINANCE BILL STARTERS: DEPARTMENT OF TRANSPORT

Mr Bottomley wrote to you on 2 December about the Department of Transport starters for the 1988 Finance Bill. There are six candidates; three were said to be definite (a, b, c) and three less certain (d, e, f). Your preliminary views are set out in Mr Barnes' minute of 3 December.

a. Changes in the qualifying criterion for the concessionary VED rate (£60) to admit cars constructed before 1.1.47 (Starter 633)

2. The proposal is to change the qualifying criterion from the date of registration of the vehicle to the date of construction. This change would reduce the volume of correspondence and produce (unquantified) savings in DVLC staff time. The likely revenue cost is thought to be insignificant and it would take up between six and eight lines in the Finance Bill.

b. Changes to the 'Recovery Vehicle' taxation class (Starter 601)

3. The Finance Act 1987 introduced enabling legislation for the creation of a new taxation class for recovery vehicles,

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the introduction to be effected by way of regulations which are to come into force on 1 January, 1988. The necessity for the new class arose because recovery vehicles were being licenced on trade plates which were intended for vehicles only temporarily in a trader's possession. By using these trade plates, traders were thus able to have recovery vehicles permanently in use, but at the same time legally avoid the payment of VED. The response to this avoidance was the introduction of a new taxation class especially for recovery vehicles; this meant that trade plates could only be used on these vehicles when they were genuinely in a trader's possession on a temporary basis.

It now appears that there has been an error in the drafting of the enabling legislation which means that the Regulations which bring the new tax class into effect on 1.1.88, cannot be extended to cover vehicles used for some essential elements of the vehicle breakdown service eg the recovery of passengers without the vehicle. The deficiencies in the primary law were first spotted by the Trade, who were concerned that certain of their members may be found in breach of the law, despite having properly licensed their recovery vehicles in the new class (ie they would be using a recovery vehicle, licensed as such, for purposes other than recovering vehicles). There are no revenue implications in the change, and it would take up about half a page in the Finance Bill.

**c. Restriction of 'Ambulance' class and introduction of new 'Welfare Vehicle' class (Starter 634)**

4. There are 8,000 vehicles currently registered in the ambulance class. They are exempt from duty and do not have to display a licence. Of these about 5,000 are thought to be 'bona fide' emergency vehicles, the remainder being used, for example, to transport the disabled or infirm, and merely

have the word 'ambulance' displayed on the vehicle.

The Department of Transport suspect that some of the 3,000 non-emergency vehicles are being used for commercial purposes but because there is no legal definition of what constitutes an ambulance, find it difficult to police the class effectively. They therefore propose to restrict the existing class to emergency vehicles only, but at the same time create a new 'Welfare Vehicle' class into which non-emergency vehicles would fall. Welfare vehicles would then be the subject of a statutory declaration about their intended use, and would be required to display a licence (this licence would be free). The Department of Transport hope that these changes would make enforcement of non-emergency vehicles more effective. A further advantage of this change would be that welfare vehicles would not be required to have the word 'ambulance' displayed on the vehicle, and it is thought that this will be widely welcomed by charitable organisations. There are no significant revenue implications in the change but it would take up around one page plus four lines in the Finance Bill.

d. Minor amendments to vehicle and registration procedures (Starter 631)

5. These are minor tidying-up amendments, to remove potential weaknesses in the law, although none is thought to be particularly serious. There are no revenue implications, and they would take up about half a page in the Finance Bill.

e. Strengthening the measures to deal with dishonoured cheques (Starter 639)

6. This may be controversial. When a cheque in payment of a VED licence is dishonoured, the licence is deemed to be void from the moment of issue and the Department of Transport has authority to request its return within a specified period. Should the motorist fail to do so he may be prosecuted for



The duty payable for the period when the licence was used, provided the Department can prove the actual use of the licence. The proposal seeks to provide authority for recovery of the duty without the necessity to prove use. There are no significant revenue implications in the change, and it would take up around one page of the Finance Bill.

f. Powers to combat under-licencing (Starter 600)

7. This starter aims to stem a growing area of VED abuse whereby certain HGVs are registered in an inappropriate tax class - particularly the concessionary Restricted HGV class - with too low a duty rate. The proposal is that entry to this concessionary class would in future be by way of a certificate of exemption, these certificates being issued by the Department's Vehicle Inspectorate. The starter is expected to yield an additional £5m per annum (not £2m as stated in Mr Bottomley's letter), and would take up about 8 lines in the Finance Bill.

8. In addition to the minor starters identified in Mr Bottomley's letter, Department of Transport officials are currently examining the question of raising an administrative charge when making VED refunds. This issue has arisen because of the significant staff resource demands which the making of refunds entails. Any move to impose such a charge (a figure of £30 has been quoted) is likely to be highly controversial. We await further details from the Department of Transport.

Summary and comments on minor Starters

9. a. Starter 633, cars constructed before 1.1.47: no reasons to object, and you have already commented that it looked "harmless";

b. Starter 601, Recovery Vehicle taxation class: no reasons to object, and as the 'trade' identified the legislative weaknesses which this starter proposes to correct, it might look odd if it were not to proceed; we hope you agree, in the light of this explanation;

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c. Starter 634, 'Ambulance' and 'Welfare' class vehicles; two benefits are said to flow from this starter:

i. non-emergency vehicles will be placed in a new taxation class and will be subject to tighter controls in order to confirm eligibility for concessionary treatment;

ii. the new class of vehicles will not be required to have the word 'ambulance' painted on the vehicle - the existing requirement<sup>b</sup> do so generates a substantial amount of correspondence from charitable organisations.

I am told by Department of Transport officials that they and their Ministers regard the starter as having both real and presentational attractions. However, I am not convinced that the proposal will in itself safeguard VED revenue, nor that it is absolutely necessary: the removal of the requirement to paint the word 'ambulance' on welfare vehicles could lead to an increase in the 'misuse' of such vehicles; and I would not have thought that it would be too difficult to identify non-emergency vehicles within the existing class and subject them to special enforcement checks. A further worry about the starter is that it will take up a page and four lines of Finance Bill space. I therefore recommend that you ask if Transport officials could look again at the need for this starter;

d. Starter 631, Minor administrative amendments: no reasons to object to this starter but Department of Transport officials regard this as expendable should Finance Bill space be at a premium. As no serious difficulties are arising with existing legislation, I recommend that you suggest it be dropped;

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e. Starter 630, dishonoured cheques: I understand that the reason this was listed as less than certain in Mr Bottomley's letter was because the Department of Transport had still to secure the agreement of officials in SHHD (there were difficulties in reconciling the proposals with Scots Law). The lack of their consent last year meant that the proposals could not proceed with the rest of the measures brought forward in response to PAC criticisms. However, SHHD agreement has now been secured and Transport officials are anxious to proceed. Had agreement been reached the previous year, and the proposals included in the package of measures clearly seen to have been introduced in response to PAC criticisms, then the likelihood is that they would have attracted less attention. In the event, the proposals will be considered in relative isolation and may not enjoy the easy passage experienced by last year's package. You have indicated that you are not keen on the starter and I have reflected this in the draft reply to Mr Bottomley;

f. Starter 600, Under-licensing: there are no reasons to object to this. The additional revenue is now estimated at £5m - this is substantial in Department of Transport terms when one considers that their total enforcement yield for 1986/87 was £23m.

10. Estimated Finance Bill Space Required for minor starters

- a. 633 - 6/8 lines (Recommend proceed);
- b. 601 - ½ page (Recommend proceed);
- c. 634 - 1 page 4 lines (Recommend asking Transport to reconsider);

**CONFIDENTIAL**

- d. 631 - ½ page (Recommend drop);
- e. 630 - 1 page (Recommend asking Transport to reconsider);
- f. 600 - 8 lines (Recommend proceed).

11. Attendance at Committee

Mr Bottomley asks if you are content to continue the recent practice of Treasury Ministers speaking to the VED clauses during Finance Bill Committee. As this seems to have worked well in recent years, I recommend that you agree to do this, subject of course to your being given official support from the Department of Transport.

12. A draft reply along the above lines is attached.

*R. George Michie*

**R G MICHIE**

**CONFIDENTIAL**

**DRAFT**

**P Bottomley  
Minister for Roads and Traffic  
Department of Transport  
2 Marsham Street  
LONDON SW1P 3EB**

**1987 FINANCE BILL STARTERS**

Thank you for your letter of 2 December about your proposals on vehicle taxation for inclusion in the next Finance Bill.

I am sure that you will appreciate that each minor starter must be considered in the context of the Finance Bill as a whole, and the need to ensure that the next Bill is not too long.

I am hopeful that space can be found for the starters outlined in paragraphs a, b and f of your letter, but wonder if your officials could review the need for those listed in paragraphs c and e: the creation of the new 'Welfare Vehicle' class will take up a page and four lines in the Finance Bill, and the proposal on dishonoured cheques, in addition to taking up a page in the Bill, may well prove controversial, particularly as it will be considered in isolation from the other measures introduced in response to PAC criticisms. I understand that our officials have been in touch concerning the remaining starter

outlined in paragraph d of your letter, and that if Finance Bill space requires that something be dropped from your list, then this would be your candidate. It would indeed be helpful if this starter could be dropped.

So far as attendance at the Finance Bill Committee is concerned, I am, in principle, content that you should not be there. But it is essential that I should be well supported by your officials, and I would like to review my decision on this matter when we know precisely what will be in the Bill.

PETER LILLEY

Covering SECRET

No 119 is a new starter  
LB 22/12

FROM: MISS S WALLIS  
DATE: 22 December 1987

- 1. MRS BURNHAMS ✓
- 3. MISS SINCLAIR ✓ W 24/12
- 3. FINANCIAL SECRETARY

- cc
- Chancellor
  - Chief Secretary
  - Paymaster General
  - Economic Secretary
  - Sir Peter Middleton
  - Mr Cassell
  - Mr Scholar
  - Mr Culpin
  - Miss Evans
  - Mr Cropper
  - Mr Call
  - Mr Tyrie
  - PS/IR
  - Mr Isaacs )
  - Mr Painter )
  - Mr Beighton ) IR
  - Mr Shaw )
  - PS/C&E
  - Mr R Allen - Code
  - Mr Jenkins -
  - Parliamentary Counsel

1988 FINANCE BILL STARTERS

I attach a revised edition of the Starters List.

2. You will wish to note that there is a new Inland Revenue Reference Sheet for Starter number 119. A new index for Inland Revenue, and new Summary Sheets for Customs and Excise and Inland Revenue.

3. This will be the final update of Starters until after Chevening.

MISS S WALLIS

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- 101 Independent taxation of husband & wife
- 102 Additional personal allowance: conversion to social security provision.
- 103 Minor personal allowances: abolition
- 104 Benefits in kind: misc.
- 105 Benefits in kind: threshold
- 106 Benefits in kind: car & car fuel benefits
- 107 Benefits in kind: third party entertainment
- 108 Benefits in kind: car parking
- 109 Benefits in kind: luncheon vouchers
- 110 Amendments to PRP legislation
- 111 Review of S79 Unapproved employee share schemes.
- 112 Employee priority shares in a public offer.
- 113 Mortgage Interest Relief Limit for 1988-89
- 114 Mortgage Interest Relief: Residence Basis
- 115 Mortgage Interest Relief: restriction of relief for home improvements
- 116 FA 1984 Employee Share Option Schemes: restricted shares
- 117 Redundancy payments
- 118 Premiums for leases: top slicing
- 119 Mortgage Interest Relief: restriction of relief for dependent relatives and divorced or separated spouses

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- 151 Personal pensions: minor changes
- 152 Occupational pensions: 'accelerated accrual' of pension benefits



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- 208 Capital allowances: enterprise zones
- 209 Capital allowances: assured tenancies
- 210 Exchange gains and losses
- 211 Abolition of relief for business entertaining of overseas customers
- 212 Small advertising gifts
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- 214 LLOYD'S: RIC leavers
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- 216 Lloyd's: reform of assessment and collection system.
- 217 Pension fund repayments

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- 254 CGT: annual exempt amount
- 255 CGT: definition of an investment trust.
- 256 CGT: extension of rollover relief to satellites and spacecraft
- 257 CGT: capital losses on building society and co-operative shares.

- 25 CGT: indexation and groups.
- 259 CGT: intra-group share exchanges
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- 301 Stamp duty on shares
- 302 Stamp duty: Channel Tunnel
- 303 Abolition of Unit Trust Instrument Duty

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- 452 Keith Committee administrative improvements
- 453 Mr Monck's Working Group proposal
- 454 Shelters exercise

Date of Issue: 18 December 1987

**BUDGET STARTER: REFERENCE SHEET**

**TITLE:** Mortgage interest relief: restriction of relief for dependent relatives and divorced or separated spouses

STARTER NUMBER: 119

CLASSIFICATION: C

Revenue fm* cost(-)/yield(+)		(Full year)	Staff effects*		Length of legislation*
1988/89	1989/90		1/4/89	1/4/90	
Neg	Neg		Nil	Nil	1/2 Page

Minister in lead	Date instructions sent to Counsel	PCTA or equivalent resolution required
FST		Yes

ORIGIN OF STARTER: Chancellor

**BACKGROUND AND COMMENTS:**

Within the ceiling of £30,000 relief is allowable for the interest on a loan applied to the purchase or improvement of a residence for a dependent relative and/or a divorced or separated spouse. Ministers agreed (meeting 19 November 1987) to abolish the relief for new loans from 1988/89.

<b>OFFICIAL IN LEAD:</b>	B O'CONNOR	<b>TELEPHONE</b>	2541 6218
<b>OFFICIAL IN SUPPORT:</b>	A C GRAY	<b>TELEPHONE</b>	2541 6785
<b>FP CONTACT:</b>	Miss M HAY	<b>TELEPHONE</b>	270 4918

\* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+) 1988/89	1989/90	1/4/89	1/4/90			
100	Income tax: allowances, thresholds & rates	UCM	14.7.87	Depends on decisions	Depends on decisions			2/3		Cost of 3.7% indexation of thresholds (£1060m in a full year) included in forecast.
101	Independent taxation of husband & wife	I*	16.9.87	Nil	Nil	+110	+770	25	3.11.87 (part)	Implementation in 1990/91. Full year cost £700m.
102	Additional personal allowance: conversion to social security provision.	UCM	3.9.87	Depends on decisions	Depends on decisions			1/4		DHSS produced initial paper. Meeting 4 Dec to discuss it
103	Minor personal allowances - abolition	I	9.10.87	+10		-75	-100	4 lines + short repeals schedule	Drafted	
104	Benefits in kind - misc.	I*	20.10.87	Depends on decisions	Depends on decisions			Depends on decisions		

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submm	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
105	Benefits in kind - threshold	UCM	16.7.87	Depends on decisions	Depends on decisions			1/4		Cost & manpower effects depend on level of threshold and whether or not it includes car car fuel benefits.
106	Benefits in kind - car & car fuel benefits	I	22.10.87	Depends on decisions	Depends on decisions			Possibly up to 1/2		Changes to scale charges made by Treasury Order, but legislation may be necessary if changes to structure of car benefit scale to be made.
107	Benefits in kind - third party entertainment	I	16.7.87	Neg (-)	Neg (-)	Nil	Nil	6 (approx)	18.11.87	Exemption announced by FST on 25.9.87.

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub <sup>mm</sup>	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length		
108	Benefits in kind - car parking	UCM	30.7.87	Depends on decisions		Depends on decisions		1/2 - 1		Estimates of cost, manpower & length of legn will need to be altered if car parking only partially exempted. Estimate of cost & manpower take into account that very little of charge is currently collected.
109	Benefits in kind - luncheon vouchers	UCM	4.12.87	Estimates not yet available						It is not certain that legislation would be required.

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUEDate: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)		1/4/89	1/4/90			
110	Amendments to PRP legislation	UCM/ NSM	3.9.87	Not known (probably negligible cost and manpower effect).					22.9.87 19.10.87 (part)	Ministers have approved drafting one item. Submissions on others will be made as soon as possible, when early reactions to the new legislation and Revenue's recent Guidance Notes can be assessed.
111	Review of S79 Unapproved employee share schemes.	I	22.7.87	Neg		Neg		5	4.9.87	Draft clauses published 26.10.87.
112	Employee priority shares in a public offer.	I	18.9.87	Neg		Neg		1/2	Drafted	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
				<u>Limit £30,000</u>						
113	Mortgage Interest Relief Limit for 1988-89	UCM	23.9.87	Nil	Nil	Nil	Nil			Few lines
				<u>Limit £35,000</u>						
				Depends on decisions		-12	-10			
				<u>Limit £40,000</u>						
				Depends on decisions		-25	-20			
114	Mortgage Interest Relief: Residence Basis	I*	23.9.87	<u>Limit £30,000</u> August 1988 start						2 cr 3
				Depends on decisions		+25-30	+25-30			
				<u>Limit £35,000</u> August 1988 start						
				Depends on decisions		+25-30	+25-30			
				<u>Alternative approach</u> April 1988 start						
				Depends on decisions		+25-30	+25-30			
115	Mortgage interest relief: restriction of relief for home improvements	I	27.10.87	Depends on decisions		-150	-200	1	15.12.87	



BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)		1/4/89	1/4/90			
116	FA 1984 Employee Share Option Schemes: Restricted Shares	I	5.10.87	Neg		Neg		8 lines	Drafted	
117	Redundancy payments	I*	23.10.87	In the range +1.5 to -10		Nil	Nil	1/2 - 1		The precise yield/cost will depend on behavioural effects. An increase in the threshold is likely to result in an uplift in the size of payments. Formerly part of Starter 454 (Shelters exercise).
118	Premiums for leases: top-slicing	I*	23.10.87	Neg	Neg	Neg	Neg	1/2	Drafted	Formerly part of Starter 454 (Shelters exercise)

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUEDate: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation	Date inst. sent to Ccounsel	Other comments
				cost(-)/yield(+)		1/4/89	1/4/90	Length		
119	Mortgage interest relief: restriction of relief for dependent relatives or separated spouses	I	27.10.87	Neg	Neg	Nil	Nil	1/2		
150	Maintenance payments and covenants.	I	20.11.87	Depends on decisions		Depends on decisions		Depends on decisions		
151	Personal pensions - minor changes	I	18.11.87	+10	+10	To be assessed		1 1/2	21.10.87 (part)	
152	Occupational pensions: 'accelerated accrual'	UCM	18.11.87	Neg	Neg	Nil	Nil	1/2		No decision until outcome known of wider review by Mr Byatt
200	Close companies - apportionment of interest	D	5.11.87	Neg	Neg	Neg	Neg	---	--	

**BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE**
Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1988/89	1989/90	1/4/89	1/4/90			
201	CT rate for FY 1988	NSM		+10	+350	Nil	Nil	2 lines		
202	Small companies rate of CT for FY 1988	NSM		Neg	-100	Nil	Nil	4-9 lines		
203	BES	I*	27.11.87		N/K		N/K	N/K		
204	Capital allowances: pre-consolidation amendments	D	20.11.87		Depends on decisions but should be very small.		Negligible	---	--	
205	Capital allowances: transfers by exempt bodies.	I	12.10.87		Nil	Nil	Negligible	1/2	30.11.87	Potential revenue saving long-term, say, £540m (net present value).
206	Capital allowances: fire safety etc	UCM	27.11.87		Depends on decisions		Negligible	Up to 1/2		
208	Capital allowances: enterprise zones	D	21.10.87		Depends on decisions		Negligible	---	--	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
209	Capital allowances: assured tenancies	NSM		Depends on decisions		Negligible		Depends on decisions		Depends on developments in Housing Policy.
210	Exchange gains and losses	D		Depends on decisions		Negligible		---	--	
211	Abolition of relief for business entertaining of overseas customers	I	11.11.87	N/K	N/K	Negligible saving		say 1/2	27.11.87	
212	Small advertising gifts	D	11.11.87	Increase to:		Negligible saving		---	--	
				£15	Nil	-3				
				£20	Nil	-4				
				£25	Nil	-5				

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
213	In-year assessment on Schedule D income	UCM	12.11.87	+60 to 70		Saving of at least 40		say 1/2		This starter would avoid what would otherwise be a once and for all revenue cost of £60-70 and a continuing staff cost of at least 40, if the Courts uphold the Special Commissioners decision.
214	Lloyd's RIC leavers	UCM	16.12.87	Probably negligible		Probably small		3/4		Cost and staff effects depend on details of relief.
215	Lloyd's Special Reserve Fund (SRF)	UCM	17.11.87	Neg	-3 to -20	Neg	Nil to + or - 10	Up to 1		Cost, staff effects and length of legislation all dependent on nature of change - for discussion with Lloyd's.

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)						
				1988/89	1989/90	1/4/89	1/4/90			
216	Lloyd's - reform of assessment and collection system.	I	10.12.87	Neg	Neg	Neg	-20 to -50	Up to 2		Staffing effects and length of legislation dependent on details of changes - for discussion with Lloyd's.
217	Pension fund repayments	UCM	17.12.87		[-100]		Nil	1/2		
250	IHT - rates and bands	NSM		-25	-60		Indexation alone will add to staff needs (increase of 20% in caseload)	1/2		Costs reflect effect of automatic indexation and are already assumed in the forecast.
251	IHT - exemption for transfers to political parties	I	9.11.87	Nil	Nil	Nil	Nil	1/2	Drafted	
252	CGT: main proposal	I*	1.7.87	Nil	-100	Nil	Nil	25	6.8.87 21.10.87 30.10.87 14.12.87 (part)	Full year cost -£300m

**BUDGET STARTERS: SUMMARY SHEETS**  
**INLAND REVENUE**

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
253	CGT - husband and wife	I*	6.8.87	Nil	Nil	Nil	Nil	1/4	Drafted	Full year cost -£90m.
254	CGT - annual exempt amount	I		Nil	Nil	Nil	+15	Few lines	18.11.87	
255	CGT - definition of an investment trust.	I	17.7.87	Nil	Nil	Nil	Nil	1	Drafted	
256	CGT - extension of rollover relief to satellites and spacecraft	I	24.7.87	Yield effect fluctuates from year to year - in some years nil, in others could be several million.		Neg	Neg	11 lines	Drafted	
257	CGT - capital losses on building society and co-operative shares.	I	18.6.87	Impossible to quantify. Revenue at risk if no action taken.		Neg	Neg	1/3	Drafted	
258	CGT - indexation and groups.	I*	12.10.87	Substantial revenue at risk if no action taken.		Neg	Neg	Depends on decisions. Could be up to 2 pages.	4.11.87	

BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
259	CGT - intra-group share exchanges	I*	21.9.87	Legislation is to prevent, for the future, both avoidance of tax and, in other cases, the charging of gains twice.		Nil	Nil	Up to 1/3	Drafted	
260	CGT: milk and potato quota	I	23.9.87	Neg	-5 or less	Neg	Neg	1/2	16.11.87	Relief announced 29.10.87.
300	Stamp duty threshold:	UCM	10.11.87							FST prefers to stay with present regime and decide threshold nearer Budget Day.
	(a) £30,000			Nil	Nil	+10	+10	Nil		
	(b) £40,000			-270	-360	-10	-10	1/3		
	(c) £50,000			-420	-580	-20	-20	1/3		
301	Stamp duty on shares	D	23.11.87	-480	-480	Nil	Nil	---	--	
302	Stamp duty - Channel Tunnel	I	21.9.87	Neg	Neg	Neg	Neg	1/3	22.10.87	
303	Abolition of Unit Trust Instrument Duty	D	24.11.87	-30	-30	Neg	Neg	---	--	





BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)		1/4/89	1/4/90	Length	Date inst. sent to Counsel	
				1988/89	1989/90					
400	Company residence and migration	I*	4.12.87		Without S482 the loss of revenue could be large (the amount must be speculative but could exceed £100m).	Nil	Nil	10-15		
450	Tax appeals - General Commissioners for Northern Ireland	I*	14.7.87	Nil		Nil		1-2 Short clause and schedule of repeals	12.8.87 (part)	Consultative document was issued seeking views by 20.11.87. Final decisions not likely until late December.
451	Tax appeals - place of hearing by General Commissioners	UCM	20.10.87	Nil			15-20* (Inspector level)	1	17.12.87	Measure avoids additional staff need. Consultative document issued 5.11.87
452	Keith Committee administrative improvements	I	16.10.87	N/K	N/K	N/K	N/K	7	26.11.87 30.11.87 2.12.87 (part)	

**BUDGET STARTERS: SUMMARY SHEETS  
INLAND REVENUE**

Date: 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1988/89	1989/90	1/4/89	1/4/90			
453	Mr Monck's Working Group proposal	I	16.12.87	Nil	Neg		Negligible	At least 2		
454	Shelters exercise	D	23.10.87	N/K	N/K	N/K	N/K	---	--	Starter split into component parts - Starters 117 & 118.

C O N F I D E N T I A L

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

									Date	18 December 1987	
									10	11	
1	2	3	4	5	6	7	8	9			
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments	
				1983/89	1989/90	1/4/89	1/4/90				
1	Duty rates	UCM	16.12.87	+535	+1195	Nil	Nil	2 pages and 12 pages of schedules		1988-89 revenue yield is based on revalorisation of 3.6%. 1989-90 yield assumes a further revalorisation of 3.8%.	
2	Duty differential for unleaded petrol	NSM	-	Variable		Nil	Nil	5 lines		Revenue cost of £0.6M per 1p tax differential for every percentage point of unleaded petrol market share	
3	Definition of process of rendering wine or made-wine "sparkling"	I	4.11.87	Nil	Nil	Nil	Nil	10 lines	18.12.87		
4	Restructuring of wine and made-wine duties	I	14.12.87	Neg	Neg	Nil	Nil	2 pages		Instructions to draft with Sols Office prior to issue to P.C.	
5	Pool betting duty structure	D	20.11.87	Neg	Neg	Nil	Nil	31 lines			

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CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

									Date 18 December 1987	
1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				cost(-)/Yield(+) 1988/89	1989/90	1/4/89	1/4/90			
6	Phased abolition of matches and mechanical lighters duties	D	8.12.87	-6	-12	Nil	-9	10 lines		
7	Abolition of minimum duty charge for beer	I	4.11.87	Neg	Neg	Nil	Nil	20 lines		Instructions to draft with Sols Office prior to issue to P.C.
8	Power to assess beer, wine and cider duties	D	4.11.87	Neg	Neg	Nil	Nil	5 lines		
9	Remission of duty on spirits for medical or scientific use	I	4.11.87	Nil	Nil	Neg	Neg	15 lines	11.12.87	
10	Oil duties relief	D	20.11.87	Nil	Nil	Nil	Nil	23 lines		
11	Relief from duty of goods for testing	I	4.11.87	Nil	Nil	Nil	Nil	10 lines		Instructions to draft with Sols Office prior to issue to P.C.

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CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 18 December 1987

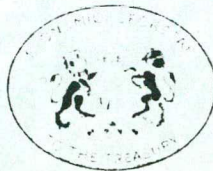
1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
30	Keith review	I	9.10.87	Neg	Neg	Nil	Nil	4-5 pages	25.11.87 (Part)	Revenue cost of £5M in full year after 1990-91
31	Revalorisation of registration and deregistration thresholds	NSM	-	Neg	Neg	Nil	Nil	None		Not applicable
32	Motor expenses	D	9.11.87	Neg	Neg	Nil	Nil	5-10 lines		
33	Value of used goods	D	18.11.87	Nil	Nil	Nil	Nil	6-7 lines		
34	Tax on supply to be liability of person completing the tax invoice	I	13.11.87	+5	+5	Nil	Nil	5 lines		Instructions to draft with Sols Office prior to issue to P.C.
35	Amendments to VAT Act 1983 Schedule 1	I	2.11.87.	Neg	Neg	Nil	Nil	10 lines	17.12.87	
36	Computer evidence (Scotland)	D	3.11.87.	Nil	Nil	Nil	Nil	1 line		

C O N F I D E N T I A L

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 18 December 1987

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
60	Disclosure of importers' details	UCM	11.12.87.	Neg	Neg	Neg	Neg	1 page		
61	Search of persons	I	12.11.87.	Nil	Nil	Nil	Nil	35 lines		Instructions to draft with Sols Office prior to issue to P.C.
62	Penalty for customs fraud	I	17.9.87.	Nil	Nil	Nil	Nil	12 lines		Instructions to draft with Sols Office prior to issue to P.C.
63	Prosecution time limits	I	17.9.87.	Neg	Neg	Neg	Neg	6 lines		Instructions to draft with Sols Office prior to issue to P.C.
64	CAP warehouse approval and control	I*	20.11.87	Nil	Nil	Nil	Nil	12 lines		<b>Instructions to draft with Sols Office on contingency basis</b>



Treasury Chambers Parliament Street, SW1P 3AG

Peter Bottomley Esq MP  
Minister for Roads and Traffic  
Department of Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

cc PS/CHX 2  
PS/CST  
PS/FST  
PS/PMG  
Sir P Middleton  
Mr Scholar  
Mr Culpin  
Mr Revolta

Mrs Burnhams  
Mr Cropper  
Mr Tyrrie  
Mr Call  
PS/ctc  
PS/AR

23 December 1987

Dear Peter

**1987 FINANCE BILL STARTERS**

Thank you for your letter of 2 December about your proposals on vehicle taxation for inclusion in the next Finance Bill.

I am sure that you will appreciate that each minor starter must be considered in the context of the Finance Bill as a whole, and the need to ensure that the next Bill is not too long.

I am hopeful that space can be found for the starters outlined in paragraphs a, b and f of your letter but wonders if your officials could review the need for those listed in paragraphs c and e: the creation of the new 'Welfare Vehicle' class will take up a page and four lines in the Finance Bill, and the proposal on dishonoured cheques, in addition to taking up a page in the Bill, may well prove controversial, particularly as it will be considered in isolation from the other measures introduced in response to PAC criticisms. I understand that our officials have been in touch concerning the remaining starter outlined in paragraph d of your letter, and that if Finance Bill space requires that something be dropped from your list, then this would be your candidate. It would indeed be helpful if this starter could be dropped.

So far as attendance at the Finance Bill Committee is concerned, I am, in principle, content that you should not be there. But it is essential that I should be well supported by your officials, and I would like to review my decision on this matter when we know precisely what will be in the Bill.

Yours ever  
Peter

PETER LILLEY





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*VBF with E/S's notes, of 14/1*

*[Handwritten signature]*

Board Room  
H M Customs and Excise  
15th Floor Alexander House  
21 Victoria Avenue  
Southend-on-Sea  
SS99 1AA  
0702 48944

FROM: C C FINLINSON

DATE: 30 December 1987

1. Mr Knox
2. Economic Secretary

cc Chancellor of the Exchequer  
Chief Secretary  
Financial Secretary  
Paymaster General  
Mr Cropper  
Mr Culpin  
Miss Sinclair  
Mr Jenkins OPC  
Mr Shaw I.R.  
PS/Inland Revenue

### KEITH REVIEW

1. In my submission of 9 October to the Paymaster General I said that this, the second and final part of our review, would deal with mitigation and reasonable excuse, an analysis of all representations received, the civil penalty for evasion involving dishonest conduct, the default surcharge, further aspects of the repayment supplement and transitional arrangements.

### Consultations

2. Before, during the passage of, and after the 1985 Finance Act, both we and Ministers have received a constant flow of representations about the Keith penalty system, particularly in respect of section 15 (the penalty for belated notification). On a formal level the major trade organisations have, in their Budget representations, argued that the VAT Tribunals should have the power to

---

### Internal distribution

CPS  
Solicitor  
Mr Jefferson Smith

Mr Nissen  
Mr Trevett  
Mr Fryett  
Mr Goddard

Mr Hogg  
Mr Bazley  
Mr Bray  
Dr McFarlane

Mr Holloway  
Mr Topping  
Mr Orr

mitigate penalties. It has also been suggested by the CBI, among others, that the surcharge system (s 19) should be replaced by a commercial rate of interest. We were therefore well aware of the general tenor of complaints about the civil penalty system, but nevertheless wrote to some 50 trade organisations asking for their further representations.

### **Mitigation and Reasonable Excuse**

3. The main thrust of these latest representations is again about mitigation, which is discussed in detail in Annex A together with the inextricably linked but mutually exclusive concept of reasonable excuse.
4. We remain firmly of the view that a general power of mitigation would be extremely resource intensive to operate, both for us and the VAT Tribunals, and would have a deleterious effect on both compliance and the revenue benefits of the Keith legislation, with potentially every penalty being subject to a claim for mitigation.
5. Representations on reasonable excuse have tended to be dismissive, if not cynical. Trade organisations and accountants in particular see it as a poor substitute for mitigation, apparently because they have chosen not to understand or accept the general principles on which the Keith recommendations are based. In arguing for mitigation, outside bodies are effectively asking for the return of the vagaries of the criminal system, without the stigma attaching to criminal prosecution. Such a system, even with that stigma, has manifestly been proven to be ineffective in securing compliance, particularly with regard to payment of tax on time and accuracy of returns.
6. The cynicism towards the concept of reasonable excuse is not justified by the facts. We have now had considerable experience of its application in the context of penalties for late registration and at paragraph 5 of Annex A we give the up to date statistics. The figures are impressive. No penalties were imposed in some 7200 (35.5%) cases because we accepted that there was a reasonable excuse. Of the 13,044 penalties upheld by Customs only 425 were appealed to the Tribunals on the grounds of reasonable excuse, and in only 19 cases have the Tribunals found that there was a reasonable excuse. A similar pattern is emerging for the surcharge (paragraph 7 of Annex A) where we have accepted 2130 reasonable excuses (26%) in the first full year of the regime.

7. These figures demonstrate a sensible application of the reasonable excuse provisions, very much to the taxpayer's advantage. It has, however, been suggested that either the law should provide for what is a reasonable excuse, or our internal policy guidelines should be made public. Neither is desirable. A reasonable excuse depends wholly on the individual circumstances of each case, eg what is a reasonable excuse for a sole proprietor is not necessarily one for a large limited company with an accounts department. We recommend that the reasonable excuse provisions should remain unaltered but we propose to issue a simple leaflet on Reasonable Excuse. This would set out what is not a reasonable excuse, as found by the VAT Tribunals and Courts, and give broad categories of what may be a reasonable excuse. We would aim to publish this leaflet by mid-summer with a draft available to you for the Committee stage.

#### Other representations

8. Although mitigation has been at the core of the representations received other areas were also covered and an analysis of all representations is at Annex B. You will wish to note in particular that you have already approved our proposals, arising out of this review, for
- a. a tiered, time related penalty for belated notification (suggested by the VAT Tribunals and the Institute of Chartered Accountants of Scotland),
  - b. a reduced rate of daily penalty, subject to an overall maximum penalty, for regulatory offences (suggested by the Institute of Taxation and the VAT Practitioners Group) and
  - c. a statutory warning letter for regulatory offences (suggested by the Institute of Taxation and the VAT Practitioners Group).
9. In addition many representations were concerned about the disproportionately severe effect of any error in excess of £100 on a repayment claim automatically debarring entitlement to the repayment supplement. At paragraph 18 we make a proposal which goes a long way to meeting this point.
10. You will also wish to be aware that there were two important representations which we cannot recommend for adoption:
- a. Currently we issue traders with a notice of liability to default surcharge after they have clocked up two defaults. Any further failure results in assessment of a surcharge initially at 5% and rising to 30%. The

NFSE, among others, wish for notification at the time of the first default. This is not impossible, but to do so now would seriously affect on the timetable for implementing the Keith phase III measures for default interest and serious misdeclaration penalty. The main problem is the time necessary, about 6 months, to reprogramme and test the changes that would have to be made in our live computer system. We estimate that the change would cost in excess of £½ million annually (essentially additional postage and printing) plus an initial loss of some £50 millions revenue from the delay to the Keith III measures.

b. The Institute of Taxation pressed for proportionality and thus a graduated serious misdeclaration penalty (SMP) reflecting the frequency of the offence. This would be similar to what we have already proposed for late registration. However, unlike our proposals for late registration, its implementation, while possible, would be complicated. This is because the penalty for late registration is not automatic, whereas SMP will be assessed by the computer system when the objective arithmetic tests are satisfied. As a consequence to introduce a scaled penalty into the system now would delay implementation of phase III by up to 12 months at an estimated one off cost, in terms of revenue not collected from the phase III provisions, of some £100 millions. We therefore recommend that this proposal be resisted, and considered only if Ministers come under extreme pressure on mitigation during debate in Committee, or on the floor of the House. We have, to cover this contingency, asked Parliamentary Counsel to draft a suitable clause. We shall, of course, reconsider a scaled penalty when we review the operation of SMP two years after its introduction (my submission of 9 October, paragraph 33).

11. Finally the comments received suggest that some aspects of our public notices might be usefully clarified. We shall take this on board, including the provision of the leaflet about 'reasonable excuse' recommended by the EDU with whom we have had helpful discussions when outlining our proposals stemming from this review.

### **s 13 Evasion involving dishonest conduct**

12. Our detailed review of this civil penalty, which deals with cases previously pursued under criminal procedures, is at Annex C. Although the legislation was enacted in 1985 there has been a pipeline of cases to be cleared under criminal procedures. As a result it is only in the last year that the civil provisions have been used to any great extent. We believe it is too early to reach firm

conclusions and we propose no changes in legislation at this time. We recommend, however, that there should be a further review before the Budget 1990. By then we should be in a better position to assess the resource implications and the validity of our current policy on the standard of proof.

### **s 19 Default surcharge**

13. Our initial review of the surcharge regime indicates that the primary objective of halving the amount of tax outstanding (originally quoted as £1.2 bn but reindexed to £1.35 bn at 31 March 1986) by 31 March 1989 is on target. We believe this was in part due to a very full publicity programme which has led to an estimated reduction of £300-400 million by 31 March 1987. Thus far we have assessed some £38 million in surcharge and estimate receipts at £55 million in 1987/88 and £40 million per annum thereafter.
14. As was to be expected automatic penalties for late payment are not popular. Complaints are not, however, of the volume we anticipated, indeed given the radical nature of the change it has gone relatively smoothly. As with reasonable excuse we have adopted a policy of manifest reasonableness towards assessing for surcharge. We have, for example, exercised our discretion to assess a surcharge only against traders who are established, continuing in business, and who normally pay tax to Customs. This has allowed us to exclude from the regime traders who regularly claim repayments or refunds of tax (eg farmers and local authorities), the first returns from newly registered businesses, traders in the process of deregistering and traders who are insolvent, missing or recently deceased.
15. It is not yet possible to evaluate fully the impact on business and compliance of the surcharge system. The first surcharges on quarterly traders were not assessed until May this year and since then the picture has been distorted by industrial action. The full extent of the regime, when for eight defaults the surcharge reaches its maximum of 30%, will not be reached, even for the totally non-compliant traders, until mid 1988. By then the Cash Accounting Scheme, which was designed specifically to assist small traders, and which should help many of them to avoid entering or remaining in the surcharge regime, will have been in operation for almost a year. We therefore propose to complete a full review of the surcharge system next autumn and to report our findings to you by this time next year.

16. There is, however, one area where we think a tightening of the regime is justified. This concerns the trader who pays an assessment smaller than his true liability, in lieu of making a return, does not render a return even though surcharged and waits for a visit to determine the true amount due. As explained in paragraph 14 and 15 of Annex D, such traders could escape surcharge on substantial sums. Subject to your agreement we propose to introduce a manual procedure to deal with these cases which we estimate will additionally yield about £600,000 annually. No legislation is required to implement this proposal.

#### **s 20 Repayment supplement, residual matters**

17. At paragraph 25 of my earlier submission I said that we were examining further some aspects of the repayment supplement. An aspect of particular interest to the EDU, and most other commentators, is the absence of proportionality in the operation of the £100 error limit above which any error automatically debars entitlement to the repayment supplement. This limit was originally £10 but was increased to £100 by the government during passage of the 1985 Finance Bill. An amendment in Committee to gear the limit to the size of the repayment claimed was resisted because it would require significant changes to our computer system and delay the implementation of the Keith package.
18. We recognise however that there is a strong case for applying the principle of proportionality and we can now operate a manual system pending the necessary changes to the computer system. We therefore recommend that the revised limit should be £250 or 5% of the repayment claimed, whichever is the greater. This would make over 99% of otherwise valid claims for repayment of tax eligible for a supplement (but only, of course, if payment of the claim was then unreasonably delayed for more than 30 days). The cost of this proposal is estimated to be not more than £25,000 annually. If you are content we seek authority to include the necessary change as part of Budget Starter 30 and to instruct Parliamentary Counsel to draft accordingly.
19. As a fall back position only it may be possible to dispense with the limit completely when default interest and serious misdeclaration penalty are introduced. Those provisions will police any abuse and constrain the size of errors. We will examine this possibility in our proposed further review of the SMP.

**Transitional arrangements**

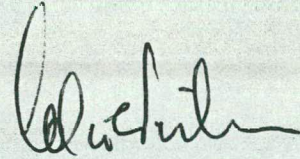
20. In paragraph 10 of my earlier submission I referred to a potential problem with the transition from the present 30% penalty for belated notification to the new scaled penalty. The proposal for the new lower penalty will be public knowledge when the Finance Bill is published, but if the new penalty does not have effect until Royal Assent some traders who are already late in notifying their liability to be registered will be tempted to further delay their notification. A similar problem could also arise because of the proposed reduction and limitation of the section 17 penalty for breach of regulations. We are advised that ways and means resolutions will be required to bring the new penalties into effect before Royal Assent and we strongly recommended that the necessary resolutions are made for both the new belated notification penalty (section 15) and the new lower daily rate penalties for breach of regulations (section 17).

**Conclusions**

21. The review has produced a package of measures which contribute considerably to the easing of the perceived tax burden on business without undermining the principles recommended by the Keith Committee. Nevertheless, it is anticipated that in Committee Ministers may be pressed for further major concessions, in particular on mitigation. We strongly recommend that such pressures are resisted.
22. We are particularly mindful that what may be perceived as simple changes, such as a scaled rate of penalty for serious misdeclaration penalty (paragraph 10b), could require substantial changes to the computer system and thus delay implementation and the benefits expected from the whole package. We shall, of course, be preparing detailed Notes on Clauses, and defensive points for use in debate.
23. In general, we believe that, with exception of the items discussed in paragraph 10, we have met all the reasonable criticisms of the penalty regime especially in the revision of the penalty for late registration. The changes to the repayment supplement and regulatory offence provisions offer an easing or a clarification of a trader's rights, consistent with our duty for the care and management of the tax.

E. R.

24. If you are content, we would be grateful for authority to instruct Parliamentary Counsel to draft the necessary ways and means resolutions for the s15 (late registration) and s17 (regulatory offences) transitional arrangements and to provide the necessary draft clauses for the changes to repayment supplement. We shall of course, be pleased to discuss should you so wish.



C C FINLINSON