PO-CH/NL/0050
PART B

CONFIDENTIAL

1986 BUDGET FINANCE BILL

DJ's 25 years 2-02-95 NAGJ

STARTS: -20-05-86
24-7-86

* URGENT ADVICE PLEASE

CH/EXCHEQUER

REC.	21 MAY 1986
ACTION	Mr Corlett *
COPIES TO	CST, PST
	Mr Cassell
	Mr Monger
	Mr Cropper

Mr Isaac – IR

21/5

Telephone 01-353 5282

21 Whitefriars Street
London EC4Y 8AL

20th May, 1986

The Chancellor of the Exchequer,
11 Downing Street,
Whitehall,
LONDON, S.W.1.

PS/IR

CST is willing to see this group

22/5

Dear Chancellor,

Finance Bill
Clause 29 and 7th Schedule

I wrote to you on 9th May at the wish of a group of important charities representative of a wide spectrum across the charity field expressing our concern at the proposals in the Finance Bill. At the same time we made representations to the Inland Revenue and we received their response on Friday evening on the new approach now being adopted. The general tenor of this was considered by the group yesterday (Monday) afternoon and we welcomed the good intentions of the Government in the substantial modifications proposed.

As a matter of urgency I was asked to write and seek a meeting with you or with one of your junior ministers so that representatives of this group can personally explain our continuing disquiet and to put forward our views on why we urge that the Government should defer legislation on an area of importance to charity generally and to the community which charities seek to serve.

We believe that the present law is sufficient to prevent abuse if actively pursued. (In that regard we welcome the proposed provision to enable the Revenue to supply information to the Charity Commissioners.) We would not be averse to some strengthening of the ability of the Revenue to withhold relief to charities which make grants to overseas charities and to require justification in certain areas of investment connected with donors.

If Ministers want simple legislation in this Finance Bill, this cannot be achieved by incorporating complex rules covering acceptable accumulations and retentions for general charitable purposes. General accumulation (which is described as an "abuse") is permitted by existing charity law. However specialist Counsel has advised that undue accumulation would not constitute a valid charitable application of funds. Tax relief would not therefore be available for such an abuse under existing law.

We do not therefore accept the need for haste in legislating in the area of limiting tax relief on accumulation for general charitable purposes nor does it seem to us to be central to the Government's immediate objectives. Indeed, as these proposals are now to apply to all charities affecting the availability of tax relief on any general accumulation, this issue is all the more deserving of wider consultation. Many charities which may have previously concluded that, as public charities, they were unaffected

will have little or no opportunity to comment. A consultative process is essential if the interests of genuine charities are not to suffer from ill-considered legislation. If it is wanted at all, as to which we have grave doubts, this is an area better suited to a Charities Bill. We very much regret that the wisdom and experience of the House of Lords cannot be applied to this problem by sheltering it in a Finance Bill.

/ We would prefer not to start informing Members of Parliament of the reasons for our continuing concern until we have been assured that Government Ministers are fully cognisant of the objections to their present thinking. Time is pressing therefore and I shall be glad to hear if a short meeting can be arranged before today week at the latest. I enclose a copy of my letter to the Inland Revenue.

Yours sincerely,
For MEMBERS OF THE 8th MAY GROUP OF CHARITIES

John Hillyer

J. S. Hillyer

Enc.

Dr. Barnardo's
British Red Cross Society
Help the Aged
The National Council of YMCA's
~~The National Heritage Memorial Fund~~ Leeds Council Foundation.
The Nuffield Foundation
Royal Institute of British Architects
The Royal Society for Mentally Handicapped Children and Adults
The Save the Children Fund
The Spastics Society
The Wellcome Trust
The YWCA of Great Britain

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20th May, 1986

A. J. G. Isaac, Esq., C.B.,
Deputy Chairman,
The Board Room,
Inland Revenue,
Somerset House,
LONDON, WC2R 1LB.

Dear Mr. Isaac,

Finance Bill
Clause 29 and 7th Schedule

Thank you for your letter of 16th May and the "prospectus".

The 8th May group of charities met again yesterday to consider your response to their representations.

The group has asked me to write to you to make the following comments:

1. We first of all acknowledge the good intentions of the Government and the Revenue in substantially modifying the original proposals.

2. Although the proposals improve on the first draft, there remain difficulties. It is evident the new proposals are not simple. To introduce complicated legislation in this Finance Bill is, in the opinion of this group, neither reasonable nor possibly attainable within the time scale available. Nor are these objectives proper subjects in our opinion for a Finance Bill, but rather for a Charities Bill. Our previous view that time is needed for the consultative process is reinforced by the application of the new proposals on accumulation and retention for general charitable purposes to all charities. I was authorised therefore to express that view again to Treasury Ministers and representatives of this group are seeking an urgent meeting with the Chancellor.

3. Our view is that there are already under existing law provisions which if applied could stop much of the abuse which is the Revenue's concern. We unanimously support any action to improve or strengthen the means of tackling abuse which can only damage the interests of genuine charities. We welcome the provisions authorising the provision of information by the Revenue to the Charity Commissioners.

4. The principal difficulty arises from the Revenue's desire to limit tax relief where income is not in fact expended. It is necessary to be certain that restrictions do not impair the ability of charities generally to benefit the community. We have considerable doubts about that even with the acknowledged improvements outlined in the "prospectus". There are a number of uncertainties requiring clarification already identified. There would be complex provisions needed in this area. Full consideration can only be given to the revised proposals after the revised draft legislation is available. We particularly identify the distinction between the application for charitable purposes which do not, or perhaps should not, attract tax relief and the misapplication of charitable moneys which is or may be a breach of trust. Our view is that the revised proposals continue to display a lack of knowledge of how charities actually conduct their affairs.

5. We take particular note of your comment that, as with the deferment to next year's Finance Bill of proposals covering private charities (if they are to be made at all), a similar approach might be applied to other areas. We cannot see how the Ministers' desire for simple legislation is compatible with the complex rules of attribution of expenditure. These do not appear to be central to the Government's immediate objectives. We are strongly urging therefore that this area of accumulation and retention also be deferred.

6. On the other hand the objectives set out in 5(i) to (iii) of the "prospectus" we do see as central to the objective of the avoidance of abuse. We believe the refusal of relief for 5(i) is already possible and practicable within existing legislation (and are indeed surprised if the Revenue do not already restrict relief accordingly). As to 5(ii), there should be no great difficulty in providing simple legislation now. 5(iii), with certain reservations, could also be met by simple provisions.

7. If, despite our strongly held opinion, Ministers wish to pursue the accumulations and retention area now, we believe that on a matter of such importance to all charities the proposals should have the widest circulation. We hope the maintenance of confidentiality can be dropped as soon as possible. Consultation should not be limited. Charities who have not been consulted will have no opportunity within the time scale permitted to consider how their interests may be affected.

Detailed comments on the prospectus will follow within two days. In the meantime, I enclose a copy of my letter today to the Chancellor of the Exchequer.

Yours sincerely,

J. S. Hillyer

Enc.

IIs 28 MAY 1986 -32

SMITH & WILLIAMSON

Chartered Accountants

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Our Ref SSW/AB

Your Ref

MINISTER OF STATE
REC. 28 MAY 1986
ACTION PS/IR
PS/Chancellor
PS/CST, PS/FST
PS/EST
Mr Cropper

20th May 1986

The Hon Peter Brooke MP
The House of Commons
Westminster
London
SW1

Mr Tyrie
Mr Ross Goobey ms 1-

Dear Peter

I enclose my firm's representation on certain aspects of the 1986 Finance Bill.

I hope that it will be possible to take the matters dealt with in the representation into account prior to the enactment of the Finance Bill.

Yours sincerely

S J MABEY

Enc.

REPRESENTATIONS ON PROVISIONS

INCLUDED IN THE FINANCE BILL, 1986

SMITH & WILLIAMSON
CHARTERED ACCOUNTANTS
No. 1 BRIDGEWATER HOUSE STREET
LONDON W1V 3PA

INDEX

1. Introduction

1.1 This representation on certain aspects of the 1986 Finance Bill is by Smith & Williamson, Chartered Accountants, and Smith & Williamson Securities.

1.2 Smith & Williamson is a firm of chartered accountants with a substantial number of clients likely to be affected by the Inheritance Tax provisions included in the Finance Bill. We also act for a large number of private bona fide charitable trusts who will suffer adversely from the provisions in the Bill relating to charities.

1.3 Smith & Williamson Securities is a firm of investment managers associated with Smith & Williamson. We act as investment managers on a discretionary basis for approximately 1,000 clients and are Licensed Deposit Takers, Licensed Dealers in Securities and a member of NASDIM. We expect to be Personal Equity Plan (PEP) managers. Smith & Williamson Securities have also sponsored issues under the Business Expansion Scheme which have raised in excess of £6 million.

2. Charities (Clauses 26-31, Schedule 7)

2.1 Whilst we welcome a scheme which enables and encourages individuals to make donations to charity through direct deduction, we feel that the requirement that deductions be routed through a charity agency adds unnecessarily to the costs of running such a scheme. We would suggest that employers should be able to remit donations direct to the charity in accordance with the employees' request.

2.2 We are very concerned at the provisions of Clause 29 and Schedule 7 as they affect charities falling within the definition of 'Private Indirect Charity'. It is understood that the object of these provisions is to counteract the abuse of charitable status by certain private charities where income and gains are not spent on charitable activities but are instead routed to benefit the persons who set up these private charities.

/ ...

We consider that to impose this regime on all charities falling within the definition of 'Private Indirect Charity' is unnecessarily harsh. Abuses of charitable status can be detected and we see no reason, therefore, why these provisions may not be introduced by way of anti-avoidance legislation to be invoked where the sole or main purpose of the existence of the charity is the avoidance of tax. We consider that the presence of tax avoidance should be established by means of a review of the charity's activities over a number of years.

2.4 We act for a number of charitable trusts set up by individuals which accumulate income over a period in order to make donations of a sizeable sum, perhaps of a one-off nature, such as the provision of specialist medical equipment. These provisions will prevent the accumulation of income for purposes such as this by charitable trusts falling within the definition of a 'Private Indirect Charity'.

2.5 We find the effective requirement for the reinvestment of realisations in qualifying assets before the end of the chargeable period inequitable. If assets are realised at the end of the chargeable period, this can result in restriction of Capital Gains Tax relief. It will also lead to ill-advised and hasty re-investment when, for instance, quoted investments may be generally falling in value. We suggest that the reinvestment requirements should be relaxed and expressed as twelve months from the date of realisation.

2.6 We can see no logical reason why surplus expenditure can only be offset against surplus income of the previous three years when many tax reliefs and allowances can be claimed for the previous six years.

/ ...

Personal Equity Plan (PEP) (Clause 37, Schedule 8)

3.1 We are primarily concerned that the costs of managing PEPs, particularly in the early years, will considerably outweigh the tax advantages accruing to investors. On the basis of the average yield available on the FT All-Share Index stocks, the maximum income tax relief in the first year will be worth £27.14 to an individual paying basic rate tax. The Capital Gains Tax exemption for disposals of investments in PEP schemes is of little benefit to the great majority of small investors who do not currently use their annual exemptions.

3.2 The costs of running a PEP scheme can be broken down into three categories:-

(a) Costs of setting up investors' accounts.

(b) Costs of servicing investors' accounts:-

(i) receipt of investors' cash.
(ii) transacting bargains.
(iii) receiving dividends.
(iv) reclaiming Advance Corporation Tax paid by companies.
(v) production of statements for investors on a quarterly basis.
(vi) providing clients with company annual reports and circulars.
(vii) providing clients with PEP valuations.

(c) Costs of monitoring premature withdrawals and giving notice to the Inland Revenue.

3.3 Our representations are aimed at both reducing the costs of running a PEP scheme and increasing the tax advantage to the investor to ensure that this scheme is a success.

/ ...

3.4 We note that the manager will have to ensure that a clear link is preserved between investors and their shares so that they will be able to attend company general meetings and vote, receive company information and benefit from shareholders privileges. We imagine that shares will have to be registered in the name of the PEP manager's nominee company if proper control is to be exercised over receipts of bonus issues and rights issues etc. PEP managers will, therefore, be faced with redirecting documents such as annual reports and offer documents with a consequent increase in administrative costs. In our experience, there are a significant number of investors who are content to allow their investments to be managed on a discretionary basis and do not wish to receive company information. We believe that provision ought to be made for those investors who wish their PEP schemes to be managed on a discretionary basis since the costs are likely to be lower than if the investor takes an active part in the management.

3.5 The plan manager should be able to obtain repayments of Advance Corporation Tax from the Inland Revenue without recourse to correspondence with the Investor.

3.6 We note that it is now proposed that a small part of each individual's investment in his PEP scheme may be invested in Unit Trusts or Investment Trusts. We remain disappointed that the whole of an individual's PEP scheme cannot be invested in Unit Trusts since they are ideally suited to the scale of investment envisaged by the scheme.

3.7 It is understood that the objective of the PEP scheme is to encourage wider ownership of equity shares. The PEP scheme would be more attractive to investors if the annual maximum which investors may invest in the scheme were greater than £2,400. Alternatively, if an element of tax relief could be given against an investor's income for funds invested in a PEP scheme along the lines of the French Loi Monory, we believe the scheme would attract a significantly greater level of support.

/ ...

Business Expansion Scheme ('BES') (Clause 38, Schedule 9

4.1 We believe that the provisions of Paragraph 6 of Schedule 9 are both arbitrary in their application and misdirected. It is our understanding that a principal objective of the Business Expansion Scheme is to provide employment in young emerging companies. Whilst we accept the need to prevent abuses such as investment in farming and property development companies, we feel that this is best achieved by linking the qualifying status of a company to a ratio of the aggregate wage bill of employees to the total of share capital and the share premium account. We would suggest that a figure of between 10% and 20% would be appropriate.

4.2 The 50% restriction may prevent the development or expansion of high risk enterprises which need a relatively heavy property base, or companies in the service sector whose non-property assets are commonly negligible.

4.3 Since one of the main objectives of the BES now appears to be the encouragement of investment in unquoted companies with higher than average risk, it is likely that such companies will sustain losses initially. If such losses occur, this will reduce the non-property assets of a company and could result in forfeiture of BES relief. We suggest that if the 50% test is necessary, it ought to be a once and for all test when funds are subscribed for qualifying shares and not a continuing test.

4.4 It is unclear on the present proposals how the Inland Revenue will deal with goodwill which attaches to an interest in land, thereby, increasing the value of that interest in land. In some cases the goodwill that attaches to a given trade from certain premises is difficult to split between the trade's goodwill and the premises' goodwill.

/ ...

The Finance Bill includes a power to make further changes amending the definition of qualifying trade by statutory instrument. We consider that this will cause uncertainty, undermining confidence and thus will adversely affect the ability of sponsors to raise funds for companies under the scheme.

5. Inheritance Tax (Clauses 79-86, Schedules 18 & 19)

5.1 It has in the past been stated in consultative documents that the charge to tax on settled property should be neither greater nor smaller than the charge on property held absolutely. We believe that there is a legitimate argument that the charge should be smaller on settled property. This is so that settled property may be used as a "safety valve" to enable individuals to partially mitigate potential tax liabilities and thus avoid the possibility of them resorting to illegal evasion. However, schedule 18, paragraph 1 introduces the new concept of potentially exempt transfers which clearly differentiates between property held absolutely and settled property. No effect has been given to the principle of parity and indeed transfers into and out of settlements are now treated much more harshly. Indeed any matters, whether directly or indirectly relating to settled property are now treated differently to property in absolute ownership. We are unable, for example, to see any good reason why the transfers envisaged in paragraphs 8 & 9 of Schedule 18 should not be potentially exempt transfers ('PETs').

5.2 We are unable to understand why transfers involving close companies which are deemed to be made by individuals should not be treated by paragraph 13 as potentially exempt transfers.

5.3 Paragraphs 2-4 of Schedule 18 make changes to the existing charging provisions. All transfers within 7 years of the death, including PETs, are charged at the death rates but the tax that would be due on that basis is reduced on a sliding scale where the transfer is more than three years before death. As it is the tax that is tapered, and not the value taken into account for cumulation, this

/ ...

will mean that the rate of tax applicable to subsequent transfers is that much higher and the one-off benefit of surviving precisely seven years that much greater. On the assumption that an individual makes a lifetime transfer of assets valued at £70,000 and subsequently dies with an estate valued at £80,000, the Inheritance Tax payable if he survives 7 years from the date of the lifetime transfer is some £25,000 less than if he had survived 6¾ years. It seems to us, therefore, that it would be more equitable if the taper relief were to apply to the value of the chargeable transfer as was the case for estate duty.

5.4 As tax on chargeable transfers (other than PETs) is charged at 50% of the scale rates, the tapering provisions result in additional tax being payable where deaths occur within the period of five years from the date of gift and not three years as was the case for Capital Transfer Tax. We do not understand why the government should wish to introduce a harsher regime for lifetime chargeable transfers than was the case previously.

5.5 Paragraphs 14 & 15 of Schedule 18 provide new rules for deciding if business and agricultural relief is due on property which is chargeable as a result of death within 7 years. The new rules provide additional tests to be satisfied which in a number of circumstances could cause hardship. Where, for example, business/agricultural relief is available in respect of a chargeable transfer which is followed by a death within 7 years and during that period the original gifted property has not remained in the ownership of the transferee, the additional tax payable as a result of the death may reflect a three fold increase. For example, if business relief at 50% is available upon the initial transfer which is chargeable at 30%, i.e. 15% of the open market value of the property, and at the death within 7 years, business relief is no longer applicable and the death rate then applicable is 60%, the additional tax amounts to three times the tax already paid.

/ ...

5.6 The Bill provides that unless certain conditions are satisfied, transfers of value will be regarded as subject to a reservation. Whilst we appreciate that it is necessary to prevent abuse of the new reliefs for lifetime gifts, the re-introduction of the estate duty concept of reservation results in a degree of uncertainty for donors and we, therefore, feel that it is necessary for a clearance procedure to be established with the Capital Taxes Office at the date the gift is made. This would provide certainty and a means for donors to plan the devolution of their estates.

5.7 We believe that the amendments to the Capital Gains Tax general relief for gifts should provide that the credit for Inheritance Tax paid or payable should be against the Capital Gains Tax payable rather than the chargeable gain.

5.8 The Bill provides that gifts of land and chattels will not be treated as subject to reservation if occupation or enjoyment is for consideration in money or monies worth. Donors will, therefore, have to rely on the advice of professional valuers in setting market rents. If as before with estate duty, the District Valuer does not agree with the Donor's valuer, it will be considered that the Donor gave only partial consideration and the gift would be treated as one made with reservation. We believe, therefore, that there must also be a clearance procedure with the District Valuer at the time that the gift is made and at subsequent rent reviews in order to provide certainty.

5.9 We believe that the conditions which are to be satisfied for transfers to come within the exceptions for reasonable provision for the maintenance of a relative are unnecessarily onerous and may result in considerable hardship.

/ ...

6. General

6.1 We are very concerned that the greater use of statutory instruments and regulations in this year's Finance Bill both to implement the detail and to amend fiscal legislation will cause considerable uncertainty in the minds of taxpayers and their advisers. In the areas of PEP's and BES, such uncertainty may damage the likely success of the schemes. As a general point, such use of regulations allows legislation to take effect with less discussion and scrutiny and thus greater likelihood of harmful side effects.

2660/017

CONFIDENTIAL

FROM: A B MURRAY
DATE: 20 May 1986

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
PS/Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Miss Sinclair O/R
Mr Haigh
Mr Romanski
Mr Andren
Mr Satchwell
Mr Dyer
Mr R K C Evans
Mr Cropper
Mr Ross-Goobey
Mr Tyrie

PS/IR
Mr Isaac, IR
Mr Walker, IR
PS/C&E
Mr Bone, C&E
Mr Graham, OPC

C/ might be interested to see CR 2015

Murray → PS/CST 20/5

FINANCE BILL: TIMETABLE

Your minute of 19 May to Miss Sinclair asked for a progress report on the state of play on Government New Clauses. Mr Isaac is responding separately on the New Clauses on the Inland Revenue side.

2. There are three non-Revenue New Clauses:

(i) VAT: directors' liability: drafting is not yet finalised, but the clause should be ready to be tabled after the Recess*. No Resolution will be required.

(ii) IBA levy: drafting has had to await completion of other work - notably amendments to clause 38 (BES); the New Clause will be ready some time after the Recess*. A Ways and Means Resolution will be needed.

(iii) Public Works Loan Board lending limit: the New Clause is ready to be tabled now. This clause will require both a Money Resolution and a Procedure Resolution (Miss Johnston's letter of 13 May to Miss Life refers), which are also now ready to be tabled.

3. On Resolutions generally, our aim is that they should all be ready to be taken on the Floor of the House by the end of the week after the Recess (ie by 6 June at the latest). Ministers will want to consider which date would be most suitable between then and 12 June, when the New Clauses are now expected to be reached.

4. Finally, this is a convenient opportunity to ask whether the Chief Secretary is content that the PWLB New Clause and Resolutions should be tabled this week.

Andrea Murray

A B MURRAY

* Given the Bill's rapid progress through Committee, the possibility that these items may not be able to be taken until Report cannot yet be ruled out. But in that event we should still be able to take the IBA levy Resolution with the other Resolutions, before the end of Committee.

d/s 27 MAY 1986 -10

The Royal Institution
of Chartered Surveyors
12 Great George Street
Parliament Square
London SW1P 3AD
Telephone: 01-222 7000
Telex: 915443 RICS G

Our Ref: PA2/BB

Your Ref:

MINISTER OF STATE

REC.	27 MAY 1986
~~ACTION~~	
INFO	PS/Chancellor PS/CST, PS/FST PS/EST Mr Cropper

Mr Tyrie
Mr Ross Goobay
PS/IR
PS/CE

21 May 1986

To: All members of Standing Committee G

Dear Member,

1986 Finance Bill

I am pleased to enclose for your consideration copies of two letters which The Royal Institution of Chartered Surveyors has submitted to the Chancellor in which are set out a number of proposed amendments to the 1986 Finance Bill. The two letters deal respectively with capital allowances for mineral extraction and with capital taxation.

Yours sincerely,

Jane Stephenson

pp R.W. Baker
Secretary for Parliamentary and Public Affairs

Enc:

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of Chartered Surveyors
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Our Ref:

Your Ref: PA2/JAS

21 May 1986

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

Dear Chancellor

The 1986 Finance Bill : Capital Allowances for Mineral Extraction

The Institution's Taxation Committee has closely studied this year's Finance Bill. One area which is of major interest to us is the new code of allowances for capital expenditure on mineral expenditure. A number of points in Schedule 12 give us cause for concern and we wish to propose a number of essentially technical amendments. These are set out below.

Clause 49/Schedule 12 : New code of allowances for capital expenditure on mineral extraction

(a) Schedule 12 Paragraph 3

In our original submission to you on this matter some three years ago (dated 25:9:83) we suggested that the difficulty in defining the term, "a mineral operator", could be met by confining the allowance to land on which planning permission to extract minerals has been granted. However it is now increasingly the practice for local planning authorities, when drawing up their structure plans, to grant only such planning permissions as will maintain a ten year supply of aggregates. Thus, as mineral extraction is necessarily a very long-term business, operators are forced to buy land many years ahead of need on which no planning permission has been granted in the hope that permission for extraction will ultimately be given. Paragraph 4 makes it clear that the allowance

quarries should be worked, especially where this would enable extra depth to be taken. Unfortunately these paragraphs will make such extra working much less likely.

We would also make the following points:

- plant and machinery made and used twenty years ago will be worn out and outdated;

- a mineral asset may increase in value both as a result of inflation and by virtue of the working out of other reserves. Moreover sources can be worked intermittently as demand for them fluctuates;

- whilst a quarry worked in 1900 and subsequently mothballed before it was worked out could now have considerable value, quarry plant in operation in 1900 would now be totally useless;

- the first owner of the mineral asset would have either made no claim or would have paid back all the allowances that he had received on the disposal of the asset.

For all of these reasons we can see no reason why the second owner should not start his occupation with a completely new tax regime.

I hope that you will give consideration to the above points which we would, of course, be very pleased to amplify.

Yours sincerely

R W BAKER
Secretary for Parliamentary and
Public Affairs

The Royal Institution
of Chartered Surveyors
12 Great George Street
Parliament Square
London SW1P 3AD
Telephone: 01-222 7000
Telex: 915443 RICS G
Our Ref: PA2/JAS

Your Ref:

21 May 1986

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

Dear Chancellor

The 1986 Finance Bill : Capital Taxation

I have written to you separately setting out a number of amendments to that part of the Finance Bill dealing with capital allowances for mineral extraction. There are, however, one or two other matters in the field of capital taxation that we wish to propose. These are set out below.

Clause 54 : Capital Gains Tax - Small Part Disposals

We note that in Section 107 of the Capital Gains Tax Act 1979 (small part disposals) it is proposed to substitute "does not exceed one-fifth of" for the words "is small, as compared with". However in section 108 of that same Act (Part disposal to authority with compulsory powers) the words "is small, as compared with" are to remain. It would surely be both logical and consistent to amend both of these sections in the same way.

Clause 81/Schedule 19 : Inheritance Tax - Gifts with reservation

Clause 81(1)(b) indicates that the Clause (dealing with property which is subject to a reservation) applies where "at any time in the relevant period the property is not enjoyed to the entire exclusion, or virtually to the entire exclusion, of the donor". We note that the words "or virtually to the entire exclusion" are repeated in the Schedule at Paragraph 6. This would seem to remove any element of flexibility of interpretation and we would urge that these words be deleted from the Schedule.

Capital Gains Tax - Indexation

There was one matter, in particular, which we were very

disappointed not to see included in the Bill. This relates to the indexation arrangement for capital gains tax.

We have previously pointed to the irony of the Government abolishing DLT, essentially a tax on windfall gains, whilst introducing indexation for CGT purposes in such a way that what were purely inflationary gains made between 1965 and 1982 continue to remain within the scope of the tax. We see no reason either in equity or in logic to treat different gains in different ways by reference to a purely arbitrary date. We therefore urge that 6 April 1982 should be substituted for 6 April 1965 as the base date for the tax, thus ensuring that in future only windfall gains would be taxed.

We further suggest that the present bases of computation for assets owned prior to the base should continue so that the taxpayer could elect either to take the April 1982 value as his acquisition cost or apportion the gain over the period of ownership. A consequent amendment would be the updating of the maximum period of apportionment from 1945 to 1962.

We would point out that such a move would have several advantages:

- the tax would then fall entirely on windfall profits;

- there would be simplification and considerable savings in administrative costs without any significant loss of revenue;

- the rate of tax could, of course, be adjusted to take account of any revenue loss, slight though such a loss would be.

We would also urge you to consider the introduction of tax bands in respect of CGT so as to help the small investor.

We hope that you will give consideration to the above points and we would, of course, be very pleased to discuss any of them with Treasury officials.

Yours sincerely

R. T. Chambers

PP R W BAKER
Secretary for Parliamentary and
Public Affairs

LC6.13

CONFIDENTIAL

PWP

FROM: CATHY RYDING
DATE: 21 May 1986

RYDING → PSCST 21/5

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
PS/Sir P Middleton
Mr Cassell
Mr Scholar
Mr Monger
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Andren
Mr Murray
Mr Satchwell
Mr Dyer
Mr R K C Evans
Mr Cropper
Mr Ross Goobey
Mr Tyrie
PS/Inland Revenue
Mr Isaac (IR)
Mr Walker (IR)
PS/IR
Mr Bone C&E
PS/C&E
Mr Graham (OPC)

FINANCE BILL: TIMETABLE

The Chancellor has seen Mr Murray's minute of 20 May. He has commented that we must avoid New Clauses at Report if we possibly can, even if this means taking an extra day for New Clauses at the end of the Committee Stage.

C R

CATHY RYDING

351/2

Nigel

01-233 4749

FROM: B O DYER
DATE: 21 May 1986

PS/CHANCELLOR

CST to bring tomorrow.

FINANCE BILL STANDING COMMITTEE 'G' : THURSDAY 22 MAY
(4.30pm in Committee Room ~~10~~ 11)

You advised me that the Chancellor had it in mind to look in on the Finance Bill Standing Committee tomorrow, for Clause 37 and Schedule 8 - 'Personal Equity Plans'.

2. For this, I suspect he may like to have to hand the following:

Flag A A copy of Clause 37 and Schedule 8

Flag B A copy of IRs composite and supplementary Note on Clause 37 and Schedule 8

Flag C A copy of the official Opposition amendments to Clause 37 and Schedule 8; and those by the SDP (Mr Wrigglesworth) to the Schedule.

Note: I shall let you have a set of Notes on the foregoing Amendments as soon as they become available (they are currently being drafted by IR).

Flag D A copy of the Chairman's provisional Selection of Amendments in respect of Clause 37 and Schedule 8.

Flag E A copy of Mr Ross Goobey's speaking note for Clause 37 and Schedule 8.

B O DYER
Parliamentary Clerk

FLAG 'A'

PART II

(12) Where, apart from this subsection, a deduction in respect of any cost or expenses is allowable under a provision of this section and a deduction in respect of the same cost or expenses is also allowable under another provision of this section or of any other enactment, a deduction in respect of the cost or expenses may be made under either, but not both, of those provisions.

Section 35: commencement.

36.—(1) Section 35 above shall have effect in accordance with subsections (2) to (4) below.

(2) Where the office or employment is under or with any person, body of persons or partnership resident in the United Kingdom, section 35 shall have effect for the year 1984-85 and subsequent years of assessment.

(3) In any other case, section 35 shall have effect for the year 1984-85 and subsequent years of assessment except that subsections (2) to (4) shall have effect only for the year 1986-87 and subsequent years of assessment.

(4) Where by virtue of subsection (3) above any provision of section 35 applies in the case of an employee at any time during the year 1984-85 or 1985-86, that section shall apply in his case for the years 1986-87 to 1990-91 as if the following were substituted for subsections (2) to (4)—

"(2) This section does not apply after 5th April 1991."

(5) All such adjustments (whether by repayment of tax or otherwise) shall be made as are appropriate to give effect to section 35 and this section.

Miscellaneous

Personal equity plans.

37. Schedule 8 to this Act (which enables the Board to make regulations about personal equity plans) shall have effect.

Business expansion scheme.

38.—(1) Schedule 5 to the Finance Act 1983 (relief for investment in corporate trades) shall have effect subject to the amendments made by Schedule 9 to this Act.

1983 c. 28.

(2) In section 26 of the Finance Act 1983 (which, amongst other things, provides for Schedule 5 to that Act to have effect only in relation to shares issued in the year of assessment 1983-84 or in any of the next three years of assessment), for the words "of the next three years" there shall be substituted the words "later year".

Enterprise allowance.

1973 c. 50.

39.—(1) This section applies to payments known as enterprise allowance and made by the Manpower Services Commission in pursuance of arrangements under section 2(2)(*d*) of the Employment and Training Act 1973.

145(1) of the 1979 Act, would constitute a chargeable gain on the disposal;

(*c*) any income which, notwithstanding the provisions of section 360 of the Taxes Act, is chargeable to tax and is not of a description specified in paragraph (*d*) or paragraph (*e*) below;

(*d*) covenanted payments to the charity, within the meaning of section 434(2) of the Taxes Act; and

(*e*) the profits of any trade carried on by the charity, being profits which do not qualify for exemption under section 360(1)(*e*) of the Taxes Act.

(2) If, by virtue of sub-paragraph (3) of paragraph 9 above, the aggregate of the unrelieved receipts of a chargeable period falls to be apportioned as mentioned in that sub-paragraph, the separate receipts which make up the aggregate shall be treated as apportioned in the same proportion as the parts of the aggregate are apportioned.

(3) Where an excess of qualifying expenditure over receipts for any surplus period falls to be set against part only of the unrelieved receipts of a chargeable period, it shall be treated as set against those receipts in the order set out in paragraphs (*a*) to (*e*) of sub-paragraph (1) above.

SCHEDULE 8

Section 37.

PERSONAL EQUITY PLANS

1.—(1) The Treasury may make regulations providing that an individual who invests in shares under a plan (a personal equity plan) shall be entitled to relief from income tax and capital gains tax in respect of the shares.

(2) The regulations shall set out the conditions subject to which plans are to operate and the extent to which investors are to be entitled to relief from tax.

(3) In particular, the regulations may—

(*a*) specify the description of individuals who may invest and the kind of shares in which they may invest;

(*b*) specify maximum investment limits and minimum periods for which shares are to be held;

(*c*) provided that shares are to be held by persons (plan managers) on behalf of investors;

(*d*) specify how relief from tax is to be claimed by, and granted to, investors or plan managers on their behalf;

(*e*) provided that plans and plan managers must be such as are approved by the Board;

(*f*) specify the circumstances in which approval may be granted and withdrawn.

SCH. 8

2.—(1) The regulations may include provision that in prescribed circumstances—

(*a*) an investor in shares under a plan shall cease to be, and be treated as not having been, entitled to relief from tax in respect of them, and

(*b*) he or the plan manager concerned (depending on the terms of the regulations) shall account to the Board for tax from which relief has already been given on the basis that the investor was so entitled.

(2) The regulations may include provision that an investor in shares under a plan or the plan manager concerned (depending on the terms of the regulations) shall account to the Board for tax from which relief has been given in circumstances such that the investor was not entitled to it.

(3) The regulations may include provision adapting, or modifying the effect of, any enactment relating to income tax or to capital gains tax in order to—

(*a*) secure that investors under plans are entitled to relief from tax in respect of shares ;

(*b*) secure that investors under plans cease to be, and are treated as not having been, so entitled ;

(*c*) secure that investors under plans or plan managers account for tax as mentioned in sub-paragraph (1) or (2) above.

(4) The regulations may provide that a person who is, or has at any time been, either an investor under a plan or a plan manager—

(*a*) shall comply with any notice which is served on him by the Board and which requires him within a prescribed period to make available for the Board's inspection documents (of a prescribed kind) relating to a plan or to shares which are or have been held under it ;

(*b*) shall, within a prescribed period of being required to do so by the Board, furnish to the Board information (of a prescribed kind) about a plan or about shares which are or have been held under it.

(5) The regulations may include provision generally for the purpose of bringing plans into existence, and generally for the purpose of the administration of plans and the administration of income tax and capital gains tax in relation to them.

(6) The words " Regulations under Schedule 8 to the Finance Act 1986 " shall be added at the end of each column in the Table in section 98 of the Taxes Management Act 1970 (penalties for failure to furnish information etc.).

3.—(1) The power to make regulations under this Schedule shall be exercisable by statutory instrument subject to annulment in pursuance of a resolution of the House of Commons.

(2) In this Schedule " prescribed " means prescribed by the regulations.

B

FLAG B

BOARD OF INLAND REVENUE

FINANCE BILL 1986

CLAUSE 37 AND
SCHEDULE 8

CLAUSE 37 AND SCHEDULE 8 : PERSONAL EQUITY PLANS

SUMMARY

1. Clause 37 and Schedule 8 enable the Treasury to make Regulations which will introduce a new tax incentive to encourage direct investment by UK individuals in shares. Everyone aged 18 or over will be able to invest up to £2400 a year in a 'Personal Equity Plan'. Provided shares are held in the plan for a minimum period (between 12 and 24 months) any capital gains and reinvested dividends will be entirely free of tax. The Regulations will be made later this year and the new scheme will commence on 1 January 1987.

DETAILS OF THE CLAUSE AND SCHEDULE

2. Clause 37 gives effect to Schedule 8.

3. Schedule 8 contains the provisions generally enabling the Treasury to make Regulations for the new scheme.

Basic conditions for relief

4. Paragraph 1 concerns the conditions which may be specified in the Regulations in order that relief from income tax and capital gains tax should be available. These conditions may cover, inter alia:

- who can invest, and what shares they can invest in
- annual limits on the amount that can be invested and the minimum period for which shares must be held
- how 'Personal Equity Plans' are to be administered
- how tax relief is to be given.

Other matters

5. Paragraph 2 provides for various consequential matters also to be covered by the Regulations.

6. Sub-paragraph (1) concerns withdrawals from a 'Personal Equity Plan' before the end of the minimum holding period, and enables any tax relief already given (ie on reinvested dividends) to be recouped, either from the investor or the plan manager.

7. Similarly, sub-paragraph (2) enables any tax relief previously given to be recovered if, for example, the investor was not eligible for relief.

8. Sub-paragraph (3) enables the Regulations to modify or adapt any income tax or capital gains tax legislation in order to give effect to the new scheme.

9. Sub-paragraph (4) empowers the Board of Inland Revenue to obtain any necessary information about a 'Personal Equity Plan', whether from plan managers or investors, within a period to be specified.

10. Sub-paragraph (5) is a 'catch-all' provision, enabling the Regulations to specify any other conditions or requirements as may be necessary for the administration of the new scheme.

11. Sub-paragraph (6) applies the usual sanctions for any failure - by investors or plan managers - to provide relevant information when required to do so.

Procedure etc

12. Paragraph 3 mainly provides for the Regulations to be made by a Statutory Instrument subject to a negative resolution.

PART II SPEAKING NOTES (NOTE FOR CIRCULATION)

GENERAL

The need to encourage wider share ownership

13. The proposed 'Personal Equity Plans' provide an important new incentive for ordinary people to own shares in British companies. This innovative reform is a further stage in the Government's policy of encouraging wider share ownership by individuals, and of reducing the fiscal distortions which still favour institutional investment.

The main features of the scheme

14. The scheme will have the following main features:

- money invested in a 'Personal Equity Plan' will, subject to the minimum of conditions, build up entirely free of tax - both income tax and capital gains tax.

- the longer investors retain their shares, the greater their benefit will be. But after a short qualifying period, which will not exceed two years, they will be free to withdraw their investment without any loss of tax relief. Indeed, once the qualifying period has passed, the Inland Revenue will not normally need to be involved at all.

- under this approach to savings relief the initial Exchequer cost is relatively low, building up only slowly as savings accumulate.

How 'Personal Equity Plans' will work

15. Consultations are taking place with potential plan managers and other interested parties. But the broad intention of the scheme is as follows:

i. Eligible investors: UK resident individuals aged 18 or over.

ii. Qualifying investments: ordinary shares in companies quoted on Stock Exchange or shares dealt in on Unlisted Securities Market.

iii. Ownership of shares: investors will own shares (and all rights eg voting rights). But shares will be held by 'plan managers' - who will be licensed share dealers registered as managers by the Inland Revenue.

Comparison with other approaches (eg Loi Monory)

16. The 'Personal Equity Plan' approach compares very favourable with other forms of relief for savings - such as the French 'Loi Monory/Delors'. It is easier to understand and to administer, both for investment managers and the Inland Revenue. Because no tax relief is given for the initial act of investment, there is no necessity for complicated and restrictive rules to prevent the same money being recycled. The minimum qualifying period during which investments must be retained within the scheme can therefore be shorter. And the low initial cost of relief means that the annual limit on qualifying investment can be higher.

Legislative timetable

17. The legislation provides for the detailed features of the scheme to be included in Regulations made by the Treasury. This will allow consultations to take place before the details are finalised. We envisage that a Statutory Instrument containing the Regulations will be laid before the House in the autumn, to come into effect on 1 January next year.

DEFENSIVE

Administration of plans will be too costly

18. Aware that some people have suggested that many plan managers will find the handling of relatively small holdings uneconomic, if investors are able to take an active role in the management of their plans. But others take a much less gloomy view. They argue that the

forthcoming changes in the stock market commissions structure and the increased use of new technology - for example, the Small Order Automatic Execution Facility (SAEF) - will in time dramatically reduce the administrative costs and the inconvenience of handling even very small packets of shares.

Scheme will not give investors adequate spread of risk

19. Agree that there is some substance in this point, although believe the problems have been over-stated. Any difficulties are likely to arise in the early years. As investors accumulate a number of plans (which, after the minimum qualifying period, can be merged into one holding) these fears should largely disappear.

Extend scheme to authorised unit trusts

20. This has been suggested by those who are unduly concerned about the problems of administrative expense (see paragraph 18) and spread of risk (paragraph 19). But, without wishing in any way to detract from the valuable role played by unit trusts in encouraging savings, we took a deliberate policy decision to exclude them from this scheme - which is essentially designed to encourage ordinary people to own shares directly in UK companies.

Extend scheme to all unquoted shares

21. No. We felt it right to include unquoted shares dealt in on the Unlisted Securities Market. But we were not convinced that it would be desirable to include all unquoted shares (many of which would in any event be covered by investment in the Business Expansion Scheme).

Scheme will only benefit large investors

22. The argument here is that small investors are unlikely to benefit from the CGT exemption for 'Personal Equity Plans' because, with a maximum investment of £2400, their holding is unlikely to give rise to a capital gain

exceeding £6,300 (the current exempt limit for CGT purposes). But this argument overlooks two important points:

- the tax exemption for reinvested dividends; and

- the fact that, as individual plans build up and are merged over time, the size of the investor's total portfolio (and therefore his ultimate capital gain) could be substantial.

'Loi Monory' approach provides a better incentive

23. There has been a claim that the French approach, which gives tax relief on the act of investment, is a better incentive for investors. This is debatable. But there is no doubt that the French approach would also entail serious disadvantages which are not present to anything like the same extent with 'Personal Equity Plans':

- because relief is 'front-end loaded', the initial cost to the Exchequer is incurred immediately (and much of this cost is 'dead weight').

- because of the high initial cost, the annual ceiling for qualifying investment has to be much lower.

- to prevent the same money being endlessly recycled, a fairly long minimum holding period (eg five years) is necessary - with strict tax penalties for early withdrawals.

- because tax relief is given on individual claims, the Loi Monory approach would have serious implications for Inland Revenue manpower targets.

/BACKGROUND NOTE

BACKGROUND NOTE

'Popular capitalism'

24. The proposed new 'Personal Equity Plans' represent the latest step in the Government's continuing commitment to reform the tax treatment of savings and investment. The general strategy is to encourage ordinary people to own shares and to reduce, so far as possible, the fiscal distortions favouring institutional investment.

Introduction

25. 'Personal Equity Plans' will be available from 1 January 1987. The detailed features of the new scheme will be contained in Regulations, to be made by Treasury Order later in the year, in the light of the current consultative process. But the broad shape of the scheme, as presently envisaged, is as described in the annex.

Contrast with Loi Monory

26. The scheme differs from other fiscal incentives for investment - such as the French 'Loi Monory/Delors' and the US 'Individual Retirement Account' (and the Business Expansion Scheme here) - in that tax relief is given, not when the initial investment is made, but when the investment is ultimately realised. Although the tax incentive is therefore deferred, this approach has many advantages both in principle and in practice:

i. In principle, it is more consistent with a fiscal regime which (predominantly) taxes income rather than expenditure.

ii. The fact that relief is 'rear-end loaded' means that the value of the tax benefit increases, the longer the investment is held. So there is no need for a long qualifying period, during which withdrawal of the investment will be penalised, or for complicated restrictions to discourage the recycling of the same money in order to obtain multiple tax relief.

iii. The initial cost of the tax relief is relatively low, whereas a 'front-end loaded' relief would incur an immediate high cost - much of which would be dead weight. So, on the 'Personal Equity Plans' the annual ceiling on qualifying investment can be much higher.

iv. Any tax relief on the initial investment could have implications for Revenue manpower targets. Even with a MIRAS-type of approach (with investors making payments net of basic rate tax, and plan managers reclaiming the difference from the Revenue) individual claims for higher rate relief would be necessary. By contrast, the 'Personal Equity Plan' approach would require only minimal Revenue involvement.

Legislative timetable

27. The fact that most of the detailed provisions for the new scheme will be contained in Regulations - with the Finance Bill legislation being mainly confined to enabling such Regulations to be made - allows consultations to take place with potential plan managers and other interested parties before the details are finalised. These consultations are now in progress.

28. The Regulations will be made by a Statutory Instrument which, on present plans, will be laid before Parliament in the autumn - with the new scheme coming into effect on 1 January 1987. The fact that the substantive provisions are to be contained in secondary legislation also means that any subsequent changes in the scheme can be made more quickly and easily than if all the measures were in primary legislation.

Policy evaluation

29. The Inland Revenue Statistics Division, in conjunction with a new control unit which is being established, will monitor the take-up of the scheme, its success and the tax forgone. Data supplied by investors and plan managers for the administration of the scheme will be

used as far as possible to produce aggregate statistics. It may also be necessary to hold simple statistical surveys to discover more about the characteristics of investors in the plans.

Exchequer implications

30. The cost of the tax reliefs for 'Personal Equity Plans' will depend on take-up but, on the assumption that about 500,000 people would participate in the first year, the cost is estimated as follows:

1986-87	negligible
1987-88	£m25

31. If the scheme proves successful, the cost could increase steadily as more 'Personal Equity Plans' are taken out. So, in ten years from now, assuming up to ten annual plans taken out by two million investors, the cost (in current prices) could well be in the order of £m1000.

Manpower implications

32. On the assumptions that premature withdrawals would be relatively uncommon and that supervision of plan managers would be confined to period audit visits from a central unit (as with MIRAS), the scheme would not have major implications for Revenue manpower targets. The precise effect would depend on the number of plan managers registered with the Revenue, and on investor behaviour, but our provisional estimates envisage a manpower cost of 5 in 1986-87, and 15 in 1987-88. The long-term cost, when the scheme is fully established, is unlikely to exceed 35 staff units.

/ANNEX

ANNEX

PERSONAL EQUITY PLANS : HOW THE PROPOSED SCHEME WILL WORK

INTRODUCTION

The purpose of this prospectus is to indicate, for people interested in becoming plan managers, the form of scheme which the Government have in mind. It does not represent the Government's final views. These will be set out in due course, in the light of further consultations.

The scheme represents a new fiscal incentive for share purchase by ordinary people. Its main features will be as follows:

- No tax relief on share purchase
- Investment in ordinary shares quoted on UK Stock Exchange or dealt in on Unlisted Securities Market
- Shares owned by investors but held by plan managers (banks, stockbrokers, licensed dealers)
- A minimum qualifying period between 12 to 24 months for each yearly plan, each with maximum investment £2,400 either as a lump sum or in instalments
- Only one plan a year, but no limit on how many plans can be accumulated or (apart from death) on how long any plan can last
- At end of qualifying period, all mature plans owned by any investor may be combined into a single holding
- No capital gains tax on withdrawal after qualifying period
- Dividends exempt if reinvested (subject to clawback of relief and closure of the plan on premature withdrawal). Dividends may be taken out in cash but would be taxable.

PART I : HOW INVESTMENT WILL TAKE PLACE

Who may invest?

Any individual aged 18 or over who is resident in the United Kingdom for tax purposes (so children, companies, trusts are excluded). Each individual may invest up to £2400 a year. Married couples will be treated as separate individuals.

There will be special rules for individuals who later become non-resident. They can continue to hold their plans but they cannot take out any more.

How will investments be made?

In a cash payment to a 'plan manager' who will buy shares and hold them on the investor's behalf. No objection if existing shareholders dispose of shares and then reinvest in same shares through this scheme (and therefore pay fees and any CGT). But they cannot simply assign existing holdings of shares.

Investment may be in lump sums or by instalments. For example, with monthly instalments (as with the DNS Yearly Plan) up to £200 per month can be paid in the year. But other types of instalment arrangements will be possible.

What investments will qualify?

Ordinary shares in companies quoted on a recognised UK stock exchange or the Unlisted Securities Market (USM). It is possible that investment in companies quoted here but registered outside the UK will not qualify.

There will be special rules to enable plans to continue if, subsequently, the shares in them lost qualifying status (eg because the company ceased to be quoted).

Excluded investments

The new scheme will not extend to:

- shares in unquoted companies (except USM companies)
- preference shares
- debentures and other corporate loan stock (including convertibles)
- options and futures
- gilts
- unit trusts.

What about investment trusts?

No final decision has been taken on whether these will be included in the new scheme. If they are, it may be necessary to restrict qualification (eg to investment trusts which invest only in qualifying PEP investments).

Partly-paid shares, rights issues etc

Purchase of partly - paid shares will be allowed. The cost of subsequent calls will count towards the overall limit for the year in which they are made.

Scrip issues will be acceptable (since no new money would be invested in any plan).

Shares purchased through rights issues would be treated in the same way as other share purchases. (But there will of course be no objection to ordinary purchases by an investor of shares from a rights issue or otherwise in respect of qualifying shares). To avoid identification problems, no carry forward of unused allowances will be permitted.

Treatment of cash

Where the investors pay instalments, plan managers will hold the money in a specially designated deposit account (separate from the plan) and any interest credited to the investor will be rolled up (tax free) and added to the amount available to buy shares.

Limitation on cash deposits

Some limitation will be necessary to ensure that the fundamental purpose of the scheme - share purchase - is observed. The simplest approach would be a monetary limit - say, £600.

Need to allow unlimited cash to be held for short period while one investment is sold and another one bought. But it will not be possible to sell off a whole portfolio in a bear market and remain in cash indefinitely before re-investing in shares.

PART II : HOW THE TAX RELIEFS WILL WORK

Qualifying period

Tax relief will be available once the investment has been maintained for a minimum qualifying period. An investment made in one calendar year must be kept throughout the whole of the following calendar year.

Thus, an investment made between 1 January and 31 December 1987 would qualify for tax relief provided it was not withdrawn before 1 January 1989. The relevant calendar year will depend on when shares are first purchased.

Portfolio management

Investors will be able to switch investments from one qualifying share to another without any CGT liability (or allowable loss) provided the proceeds are reinvested within [four weeks.] If the [four-week rule] is broken during the qualifying period, the plan will be void.

A market value rule will apply. So if a £2,400 plan has grown to £3,000, that amount can be reinvested. The same will apply if the plan has declined in value: if the value has halved, the permitted reinvestment will be £1,200.

Treatment of dividends

Distributions from qualifying shares will be exempt from tax only if reinvested. Companies will pay them under the normal ACT rules to

plan managers, who will then claim payment of the tax credit from the Inland Revenue and hold the dividend and credit in a specially designated account until used to buy qualifying shares.

These shares can be added to the holding in the original plan (ie during the qualifying period dividends from the 1987 plan will buy further shares for that plan).

If the investor chooses instead to receive the dividend income, it will be taxed in the normal way.

Stock dividend options will be treated in the same way as reinvested dividends.

Premature withdrawals

If, during the qualifying period, any shares in a plan are withdrawn, the plan will come to an end. The investor will be liable to CGT on any gain arising under normal rules from the start of the plan. By the same token, any loss will be allowable.

Any dividend paid to the investor (rather than reinvested) during this period will be treated as a withdrawal - so that the plan will be closed. If a dividend has previously been earmarked for reinvestment, it will be paid to the investor, who will be taxed in the normal way, and the tax credit will be repaid to the Revenue. Thus, plan managers will need to keep adequate records, of transactions.

Withdrawals after end of minimum holding period

Withdrawals from a plan after the minimum period may be cash or shares. But, if the shares are retained, their acquisition cost for CGT will be their market value at the point of withdrawal.

Part withdrawals will be permitted, but plans cannot be subsequently topped up.

Once the minimum holding period has been passed, all plans will be pooled to keep down management expenses.

Death of investor

In general, plans will not be transferable. But on the death of an investor, the plan will be treated for CGT purposes as if it had acquired by personal representatives at market value.

Death will not be treated as a premature withdrawal, either for income tax or CGT.

PART III : HOW THE PLANS WILL BE ADMINISTERED

Who may act as plan managers?

Plan managers must be registered with the Inland Revenue. The following (who may at present be legally able to deal in securities) will be entitled to act as plan managers:

- exempt bodies (banks etc)
- members of recognised dealer organisations (eg Stock Exchange, NASDIM)
- other organisations licensed by DTI

The Financial Services Bill is likely to enable financial institutions to become licensed dealers more easily. Provided that they satisfy the requirements and are registered by the Inland Revenue, such newcomers can also be plan managers.

Role of plan managers

Managers should if possible be able to act either as agent on the instructions of the investor, or on a discretionary management basis. In practice, the latter will be the normal arrangement for the bulk of investors. But it is desired that such investors will retain voting etc rights and receive company reports etc.

Supervision

A plan manager's registration could be withdrawn if the rules of the scheme are broken - eg if he permitted multiple investments.

Audits will be carried out by a special unit in the Revenue. Special rules will be needed in such circumstances to enable plans to be transferred to another manager.

Small investors

Personal Equity Plans are to be accessible to small investors. One way might be to make registration as a plan managers conditional on acceptance of a minimum contribution [£25 per month].

Duties of Plan Managers

Plan managers will be required to keep records in a prescribed form for supervisory purposes. Such records will include:

- a full list of participants in computer form (including National Insurance numbers)
- a full record of share transactions (ie number and price of shares bought and sold) during the minimum holding period for each Plan
- a full record of the amount of dividends and interest earmarked for reinvestment (and so entitled to attract the basic rate tax credit)

On a premature withdrawal, a plan manager will have to:

- compute the chargeable gain (or allowable loss);
- determine the basic rate tax foregone on the dividends earmarked for reinvestment;
- within a month, pass this information on to the Revenue; and
- deduct the tax credit from the disposal proceeds paid to the investor and repay it to the Revenue.

CLAUSE 37 AND SCHEDULE 8 : PERSONAL EQUITY PLANS

SUPPLEMENTARY NOTE

Introduction

1. There has been a number of changes in the proposed 'Personal Equity Plan' scheme since the Budget Day announcement. A consultative document - 'A Prospectus for Potential Plan Managers' - published on 12 May 1986 summarises the current intentions (copy attached).

Qualifying investments

2. Three changes have been made since Budget Day, as follows. None affects the Finance Bill legislation

3. First, the Budget Day announcement indicated that unit trusts were excluded, and left unclear the status of investment trusts. It has now been decided that a modest amount of investment in both will be permitted. No limit has been specified - but one possibility could be £300 or 25 per cent of total annual investment, whichever is greater. (The overall limit on qualifying investment remains £2400 per annum).

4. Second, it has now been decided that all unquoted shares (ie including those dealt in on the Unlisted Securities Market) should be excluded. USM shares were felt to be too risky for first-time investors.

5. Finally, only quoted shares in UK-incorporated companies will qualify: the relief should go to help UK companies.

Consultations

6. The main points to arise so far are as follows:

i. Administrative costs

7. As suggested in the main note on these provisions (paragraph 18), responses on this point vary. The major clearing banks (who are very enthusiastic about the scheme) are not

unduly worried - provided that shares can be held by nominee companies. The stockbrokers see little profit potential in the small amounts involved (but most admit they will have to be involved, to satisfy their existing individual clients).

ii. Unit/investment trusts

8. The compromise decision to allow these in up to a (low) limit - see paragraph 3 above - will not completely satisfy the unit and investment trust lobbies. There is pressure to allow 100 per cent investment in unit and investment trusts if, for example, they invest only (or predominantly) in qualifying shares. Ministers have resisted this, on the grounds that it complicates what is intended to be a simple, easily-understood scheme. And, in the case of unit trusts, there would not be a sufficiently clear link between investors and the underlying shares.

iii. Liquidity limits

9. Some potential plan managers have proposed that investors should be allowed to stay liquid indefinitely - for example, in a bear market. In such a case, the interest arising would be taxed. Or, alternatively, cash would be held in a non interest-bearing account.

10. The present intention is that, if funds are not reinvested in qualifying shares within four weeks, the plan must be closed. If this occurs after the qualifying period, there will be no tax implications - but subsequent re-investment in Plans will be subject to the annual limit.

11. The objection to allowing unlimited liquidity is that it weakens the fundamental purpose of the scheme - ie to encourage people to buy and hold shares. And, if interest on cash deposits were taxed, a major attraction of the scheme ('no involvement for investors with the Revenue') might be lost.

Next steps

12. Consultations will continue, with a view to bringing forward detailed proposals in July.

/ANNEX

INTRODUCTION

The purpose of this prospectus is to indicate, for people interested in becoming plan managers, the proposed shape of the Personal Equity Plan Scheme announced by the Chancellor of the Exchequer in his recent Budget Statement. It does not represent the Government's final views. These will be set out in due course, in the light of further consultations.

The scheme provides a new fiscal incentive for share purchase in British companies by ordinary people. The main criteria to be satisfied will be as follows:

- Qualifying investment will be confined to ordinary shares in UK-incorporated companies quoted on The Stock Exchange.

- There must be a clear link between the investor and his or her shares - so that investors may attend company AGMs, exercise voting rights, receive company information and benefit from shareholders privileges.

- Dividends on investment must be ascribed to individual investors.

- Limits on holding assets in liquid form in plans.

- Charges by plan managers must be transparent.

Special arrangements will, however, be made to allow investment, up to a low limit, in investment and unit trusts.

The principal features of the scheme will be:

- Shares may be registered in owner's name or in the name of a plan manager's nominee company but in either case, certificate to title to be held by plan manager

- A maximum investment of £2,400 a year.

- Tax relief to be given on build-up of investment (ie no capital gains tax and no income tax on reinvested dividends) subject only to the investment being retained within the plan for a short qualifying period of between 12 and 24 months.

- Once the qualifying period has ended, investments may be realised at any time without loss of relief.

PART I : HOW INVESTMENT WILL TAKE PLACE

Who may invest?

Any individual aged 18 or over who is resident in the United Kingdom for tax purposes (so children, companies, trusts are excluded). Each individual may invest up to £2400 per year. Married couples will be treated as separate individuals.

Individuals who later become non-resident can continue to hold their plans but cannot take out any more.

How will investments be made?

In a cash payment to a 'plan manager' who will buy shares and hold them on the investor's behalf. Existing shareholdings cannot be assigned to a plan.

Investment may be in lump sums or by instalments.

What investments will qualify?

Subject to special arrangements to allow investment, up to a low limit, in investment and unit trusts, investment must be in ordinary shares in UK-incorporated companies quoted on the listed securities market of The Stock Exchange.

There will be special rules to enable plans to continue if, subsequently, the shares in them lose qualifying status (eg because the company ceases to be quoted).

Excluded investments

The following investments are excluded:

- shares in unquoted companies, including those traded on the Unlisted Securities Market
- shares in quoted companies incorporated outside the United Kingdom
- preference shares
- gilts and other fixed interest securities
- convertibles
- options and futures.

Partly-paid shares, rights issues etc

Purchase of partly - paid shares will be allowed. The cost of subsequent calls will count towards the overall limit for the year in which they are made.

Scrip issues will be acceptable (since no new money would be invested in any plan).

Shares purchased through rights issues will be treated in the same way as other share purchases. (And there will of course be no objection to ordinary purchases by an investor of shares from a rights issue or otherwise in respect of qualifying shares. Nor will there be any objection if, for administrative reasons, plan managers impose special rules on how rights issues are to be dealt with.)

To avoid identification problems, no carry forward of unused allowances will be permitted.

Treatment of cash

Where the investors pay by instalments, plan managers may hold the cash within the plan and any interest paid on the deposits will be free of tax if rolled up and added to the amount available to buy shares.

Limitation on cash deposits

Instalments may be paid until the end of the calendar year or until £2400 is available for the purchase of shares by the investor (whichever is the first).

Once shares have been purchased some limitation on cash deposits will be necessary to ensure that the fundamental purpose of the scheme is observed. The rules may need to be expressed in terms of a monetary limit (perhaps £500).

Unlimited cash may be held for short periods (perhaps up to four weeks) while investments are sold and others bought. If an investor wants to sell off some or all of his portfolio and remain in cash indefinitely, he will be able to withdraw his funds from the plan without any tax penalty (after the end of the qualifying period). But if he subsequently wants to reinvest in qualifying shares, he will have to start a new annual plan under the usual rules.

PART II : HOW THE TAX RELIEFS WILL WORK

Qualifying period

Tax relief will become unconditional once a plan has been maintained for a minimum qualifying period. Interest rolled up on instalments made before the first shares are acquired will be free of tax if subsequently used to buy qualifying shares. A plan made in one calendar year must be kept throughout the whole of the following calendar year.

Thus, shares acquired by an investor between 1 January and 31 December 1987 would qualify for tax relief provided no withdrawal from the plan was made before 1 January 1989.

Portfolio management

Investors (or plan managers, on their behalf) will be able to switch investments from one qualifying share to another without any CGT liability (or allowable loss) provided the proceeds are reinvested within four weeks. If the four-week rule is broken during the qualifying period, the plan will be void: if broken after the qualifying period, the shares disposed of will be regarded as withdrawn from the plan (but tax relief up to the date of disposal will not be lost).

The proceeds of any disposal may be reinvested. So if, for example, a £2,400 plan has grown to £4,800, that amount can be reinvested. The same will apply if the plan has declined in value: if the value has halved, the permitted reinvestment will be £1,200.

Transfers from one plan manager to another will not be prohibited.

Treatment of dividends

Distributions from qualifying shares will be exempt from tax only if reinvested. Companies will pay them under the normal ACT rules to plan managers, who will then claim payment of the tax credit from the Inland Revenue and hold the dividend and credit within the plan until used to buy qualifying shares.

If the investor chooses instead to receive the dividend income, it will be taxed in the normal way.

Stock dividend options will be treated in the same way as reinvested dividends.

Premature withdrawals

If, during the qualifying period, any shares in a plan are withdrawn, the plan will come to an end. The investor will be liable to CGT on any gain arising from the start of the plan. By the same token, any loss will be allowable.

Any dividend paid to the investor (rather than reinvested) during this period will be treated as a withdrawal - so that the plan will be closed. The investor will be taxed in the normal way, and any tax credit previously claimed by the plan manager (because the original intention was to reinvest dividends) will be repaid to the Revenue.

Withdrawals after end of minimum holding period

Withdrawals from a plan after the qualifying period may be by way of cash or shares. But if the shares are retained outside the plan, their acquisition cost for CGT will be their market value at the point of withdrawal.

Part withdrawals will be permitted, but plans cannot be subsequently topped up.

Once the qualifying period has been passed, all plans may be combined to keep down management expenses.

Death of investor

In general, plans will not be transferable. But on the death of an investor, the plan will be treated for CGT purposes as if it had been acquired by personal representatives at market value.

PART III : HOW THE PLANS WILL BE ADMINISTERED

Who may act as plan managers?

Plan managers must be registered with the Inland Revenue. They must be authorised, under the Prevention of Fraud (Investments) Act 1958, to carry on the business of dealing in securities (and in due course authorised to carry on investment business under the Financial Services Bill). Currently those eligible to act as plan managers are:

- members of The Stock Exchange
- members of recognised associations of dealers in securities (eg NASDIM)
- other firms licensed or exempted by DTI

The definition of 'authorised institution' could include an employer if he satisfied the other conditions and was registered by the Inland Revenue as a plan manager.

Role of plan managers

Managers may act either as agent on the instructions of the investor, or on a discretionary management basis. They will be required to operate within the normal regulatory rules. Where the institutions concerned are not authorised or exempt under the Banking Act, arrangements will be needed to segregate cash held on behalf of investors.

Charges

It will be for plan managers (and their investors) to arrange how charges are to be dealt with. But all the manager's charges and other remuneration from clients' business should be explicit.

Supervision

A plan manager's registration would have to be withdrawn if he lost authorisation under the Financial Services legislation or if the rules of the scheme are broken - eg if he knowingly allowed investors to exceed the £2400 limit. In such circumstances, plans would be transferred to another manager.

Audits of plan managers will be carried out from time to time by the Inland Revenue to ensure that the scheme is being operated correctly.

Inland Revenue information requirements

Plan managers will be required to keep records in a prescribed form for supervisory purposes, including:

- a full list of investors in computer form
- a full record of share transactions (eg number and price of shares bought and sold) throughout the life of the plan
- a full record of the amount of dividends and interest earmarked for reinvestment (and so entitled to attract the basic rate tax credit).

On a premature withdrawal, a plan manager will have to:

- compute the chargeable gain (or allowable loss);
- determine the basic rate tax foregone on the dividends earmarked for reinvestment;
- within a month, pass this information on to the Revenue; and
- deduct the tax credit from the disposal proceeds paid to the investor and repay it to the Revenue.

FLAG 'C'

Finance Bill, *continued*

Mr Terry Davis
Dr Oonagh McDonald
Mr Tony Blair

1R

C

Schedule **8**, page **103**, line **25**, leave out 'shares under a plan (a personal equity plan)' and insert 'a unit trust'. **101**

Mr Terry Davis
Dr Oonagh McDonald
Mr Tony Blair

1R

Schedule **8**, page **103**, line **27**, at end insert 'provided that the investor does not hold any other shares.'. **102**

Mr Terry Davis
Dr Oonagh McDonald
Mr Tony Blair

1R

Schedule **8**, page **103**, line **31**, leave out 'may' and insert 'shall'. **103**

Mr Terry Davis
Dr Oonagh McDonald
Mr Tony Blair

1R

Schedule **8**, page **103**, line **43**, at end insert— **104**

'(*g*) specify the maximum charges to be made by plan managers.'.

Mr Terry Davis
Dr Oonagh McDonald
Mr Tony Blair

1R

Clause **37**, page **36**, line **28**, leave out 'Board' and insert 'Treasury'. **105**

Mr Ian Wrigglesworth

1R

Schedule **8**, page **103**, line **25**, after 'shares', insert 'unit trusts and investment trusts'. **202**

Finance Bill *continued*

Mr Ian Wrigglesworth IR

90

★ Schedule **8**, page **103**, line **26**, leave out ' and capital gains tax '.

Mr Ian Wrigglesworth IR

93

★ Schedule **8**, page **103**, line **27**, at end insert ' and to a tax rebate based on a percentage of the average value of the Fund during the previous tax year '. .

Mr Ian Wrigglesworth IR

94

★ Schedule **8**, page **103**, line **32**, after ' invest ', insert ' and to specify an investment income limit '.

Mr Ian Wrigglesworth IR Now 202

95

★ Schedule **8**, page **103**, line **33**, after ' shares ', insert ' unit trusts and investment trusts '.

Mr Ian Wrigglesworth IR

91

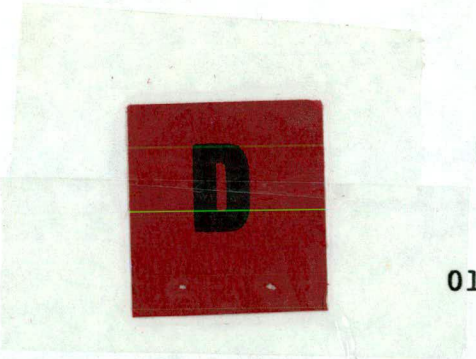
★ Schedule **8**, page **104**, line **16**, leave out ' or to capital gains tax '.

Mr Ian Wrigglesworth IR

92

★ Schedule **8**, page **104**, line **37**, leave out ' and capital gains tax '.

FLAG D



FROM: Deputy Parliamentary Clerk
DATE: 21 May 1986

01-233 5532

PS/CHIEF SECRETARY

cc PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger - FP
Miss C Sinclair - FP
Mr M Haigh - FP
Mr K Romanski - FP
PS/Inland Revenue
PS/HMCE
Mr P Cropper
Mr T Sainsbury MP
Mr P Lilley MP

FINANCE BILL STANDING COMMITTEE G : PROVISIONAL SELECTION OF AMENDMENTS

The Clerk to the Committee has telephoned through the following provisional 'selection of amendments' for consideration of the Bill in Standing Committee tomorrow.

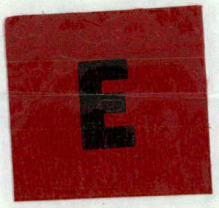
CLAUSE 37 (Personal equity plans)
105

Schedule 8 (Personal equity plans)
101+202
102
90+93+94+91+92
103
104

Clause 38 (Business expansion scheme)
Govt 60+61+62+71+72+78+79+81+82

Schedule 9 (Business expansion scheme)
Govt 63+64+65+69+70
96+112
Govt 66+67
Govt 68

FLAG 'E'



FROM: A ROSS GOOBEY
DATE: 21 MAY 1986

PS/CHIEF SECRETARY

cc Chancellor
FST
MST
EST
Mr Cassell
Mr Scholar
Miss O'Mara
Mr T Mathews
Mr Murray
Mr McIntyre
Mr Cropper
Mr Tyrie

Mr Munro - IR

SPEAKING NOTE FOR CLAUSE 37 AND SCHEDULE 8: PERSONAL EQUITY PLANS

I attach a speaking note for the Finance Bill Committee.

ARG

A ROSS GOOBEY

An important part of the Government's strategy is to create a wealth-owning democracy on the widest possible scale. At the moment, too many workers in industry do not feel they have a proprietorial interest, even though they may have a substantial indirect interest in the system through their pension fund or insurance policy. The policy has already seen the remarkable doubling in individual share ownership, to as much as 14 per cent of Britain's adult population according to NOP, largely as a result of the privatisation programme.

2. In order to accelerate the welcome trend, we felt it important to give an incentive to the average investor to enable him to build up a direct investment in British shares without having to submit returns to the Revenue.

3. [%] of income taxpayers do not submit annual returns to the Inland Revenue, being taxed purely on PAYE, so the absence of direct Revenue involvement is an important part of the scheme.

4. We did not follow the direct example of the Loi Monory, which gives tax relief on going into a scheme but taxes gains, because it involves immediate revenue costs and double Revenue involvement.

5. There has been criticism that, since the annual CGT exemption is now £6,300 the only benefit will be to those already using this exemption, and that it will not benefit the small investor. Apart from the administrative benefit to the small investor (3. above), an investment of £500 per annum in the FT Actuaries All-Share Index on January 1 in each year from 1976 to 1985 inclusive

would now be worth over £18,000 by December 31 1985, with capital gains well over the annual limit.

6. We have recognised the needs of the small investor by allowing in unit and investment trusts up to a low limit, in order to give the small investor a spread of investment, but, in order to take up the maximum relief, an investor must have a direct investment in at least one underlying ordinary share.

7. The direct entitlement to exercise the voting rights of shares is one of the most important elements of direct ownership and, for that reason we have not allowed either all the annual entitlement to be invested in a co-mingled investment or the inclusion of some hybrid unit trust type schemes which ingenious participants have suggested.

8. The unit trust movement is already geared to accepting small investors, a typical management group having average monthly unit trust savings of £26 per month for over 7,000 savers.

9. Many large institutions have indicated to us their desire to participate in promoting Personal Equity Plans as they foresee personal share ownership as an incoming tide.

10. There are other low minimum monthly savings schemes already in place - such as the DNS scheme with a minimum of £20 per month.

11. [NOT FOR USE]. The Post Office has not been involved in Personal Equity Plans because a) there are continuing changes in DNS being looked at and b) it was originally thought of as a fallback position if the private sector showed no interest.

CONFIDENTIAL

THE BOARD ROOM
INLAND REVENUE
SOMERSET HOUSE

FROM: A J G ISAAC
DATE: 21 MAY 1986

CHIEF SECRETARY

FINANCE BILL TIMETABLE

1. Miss Rutter's note of 19 May asked me to give advice on the state of play on Entertainers and Sportsmen, Robeco and other new clauses.

Non-resident Entertainers and Sportsmen

2. Drafting is not yet complete: Parliamentary Counsel is at present working on a revised draft, but he has not given any firm indication of when it will be finished. But we are hoping that it will be ready to table during the week after Recess. The Ways and Means Resolution which will be required should also be ready during that week.

---

cc Chancellor of the Exchequer
Financial Secretary
Economic Secretary
Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Culpin
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Dyer
Mr Cropper
Mr Lord
Mr Ross Goobey
Mr Graham, Parly Counsel
Mr Bone, Customs & Excise
The Hon T Sainsbury MP
Sir Lawrence Airey
Mr Isaac
Mr Battishill
Mr Pollard
Mr Painter
Mr Lawrance
Mr Corlett
Mr Houghton
Mr Taylor Thompson
Mr Beighton
Mr Pitts
Mr Lewis
Mr Hall, Solicitors
Mr Johns
Mr Walker
PS/IR

Robeco

3. This new clause is half drafted and should be ready for tabling (by a backbencher) soon after Recess. No resolution is needed.

Other New Clauses

4. Drafting of the clause and resolution on Golden handshakes is complete, and it can be tabled when required. Miss Rutter's note indicated that this would not now happen before Recess.

5. On Stamp Duty two or three new clauses are in prospect. the clause (with its resolution) withdrawing the charge on loan stock is ready to be tabled. As for the 1½% ADRs charge, it is likely that two clauses will be needed, one requiring resolution cover. They will not be completed until after Recess.

6. A note is coming forward to Ministers at about the same time as this note on ACT and Double Taxation Relief. If Ministers agree to a new clause, it is possible that it could be tabled soon after Recess but it may have to be held over until Report, dependent on drafting progress. It might also require a Ways and Means resolution.

7. On PRT: arm's length/valuation rules, final decisions have yet to be taken. It is possible that any new clauses could be ready for tabling at Committee (though not before the Recess), but it may be more realistic to aim for Report.

8. The new clause on Boarding School Allowances etc is largely complete, but we understand that Ministers may still have some open points on this. It could if necessary, however, be tabled at reasonably short notice (by a backbencher), if Ministers wish.

9. There are some areas I mentioned in my note of 25 April where new clauses are now unnecessary or unlikely. On the Channel Tunnel we have now advised that this clause will not now be needed; and on fixtures we have just heard from UKOITC that they think their problem can be settled within the context of the 1985 fixtures legislation. It therefore appears that no new clause will now be necessary. Measures on the right to obtain accounts, employee share schemes and Swiss fiduciary deposits are not now required. And a new clause on MIRAS is now also unlikely.

10. Finally, notes from Mr Pitts and Mrs Hubbard on 14 May canvassed the possibility of amending Section 16 of the Oil Taxation Act. If Ministers were to agree this, a new clause would be required. It would be unlikely to be ready before Report.

C + C.1.

A J G ISAAC

001/2767

FROM: JILL RUTTER
DATE: 22 May 1986

MISS SINCLAIR

cc: PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
PS/ Minister of State
Sir Peter Middleton
Mr Cassell
Mr Scholar
Mr Monger
Mr Culpin
Mr Andren
Mr Burr
Mr Haigh
Mr Romanski
Mr Dyer
Mr Murray
Mr Satchwell
Mr Cropper
Mr Ross Goobey
Mr Tyrie

Mr Graham (Parliamentary Counsel
Mr Bone C & E
The Hon T Sainsbury
PS/IR

C/ useful round-up of where things stand on Finance Bill

CR 2715

FINANCE BILL TIMETABLE

The Chief Secretary discussed Mr Murray 's minute of 20 May, and Mr Isaac's minute of 21 May with Mr Battishill and Mr Isaac, Mr Graham, Mr Dyer, Mr Murray, Mr Neilson, Mr Norgrove, Mr Williams and the Hon T Sainsbury on 21 May.

Government new clauses

2 The Chief Secretary said that he was opposed to tabling Government new clauses at report. He understood that only one or two clauses would be available for tabling before the Recess. He therefore thought that the objective should be to table as many clauses as possible to appear on the order paper on 3 June when the House re-assembled from the Recess.

3 The following clauses were discussed:

(i) **Entertainers and Sportsmen**

Mr Battishill outlined the current state of play. He thought that the clauses would be available to appear on 3 June. He would be minuting next week drawing attention to three key areas in the secondary legislation which would comprise the fine print of the provisions.

(ii) **Robeco**

It was agreed that since this was to be given to Mr Hanley it need not be ready by 3 June. The aim was to have it available by 4 June.

(iii) **Golden Handshakes**

This was already drafted, and would be tabled with other clauses to appear on 3 June.

(iv) **Stamp Duty**

Mr Graham said that five new clauses had to be prepared. It was agreed that if any clauses were not to be tabled on 3 June, stamp duty clauses should be the ones to slip; though it was recognised that the clauses ought to be available when the existing stamp duty clauses were debated in Committee. It was agreed that linked amendments should be picked up on Report. It was agreed that Mr Sainsbury would establish with the Economic Secretary when Clause 65 would be considered, since the date had operational significance.

(v) **ACT and Double Taxation Relief**

Mr Graham thought that this could be drafted by the deadline once policy was established.

(vi) **PRT; arm's length/valuation rules**

Mr Battishill explained that this could not be ready for Committee. It was agreed that the clause would be introduced either at Report or not at all.

(vii) **Boarding School Allowances**

The Chief Secretary said that the Financial Secretary had some questions on the last Revenue submission on this. This was still being pursued.

(viii) **Golden Handcuffs**

Contingency instructions had been sent to Parliamentary Counsel. It was agreed that if anything were to be done on Golden Handcuffs, it would be done at Report stage.

(ix) **Other Inland Revenue clauses**

It was noted with relief that no further problems would arise with the clauses mentioned in paragraphs 9 and 10 of Mr Isaac's minute.

(x) **VAT directors' liability**

This would be available for tabling for 3 June.

(xi) **IBA levy**

Mr Graham reported the accute difficulties arising on this, new instructions had just recently been received from the Home Office. They wished to consult the provisions. It looked difficult to accommodate within the timetable for Standing Committee, and a major row was anticipated if the new clauses were not tabled until Report. It was therefore agreed that the Chief Secretary would write to the Home Secretary outlining his concerns and suggesting that this might be better omitted from the Finance Bill.

(xii) **PWLB lending limit**

It was agreed that this would be done on 3 June.

Presentation

4 The Chief Secretary has suggested that in order to help the publicity attached to new Government clauses the individual Ministers responsible for taking through the Finance Bill should write to Terry Davis as they are tabled with a copy of the clause. The new clauses should be accompanied by Inland Revenue Press releases.

Charities

5 It was agreed that there might be advantage in tabling a revised procedure motion to enable the revised charity clause to be taken on 17 June.

6 All money, ways and means and procedural resolutions would be tabled together. It was noted that if a resolution was needed for a PRT clause this would be done in the House.

Government amendments

7 Mr Graham explained that there was a considerable amount of work to be done on the Government amendments on inheritance tax. Some might have to be introduced at Report. The Chief Secretary would be grateful if the Minister of State could consider the Government's priorities for Committee. The Chief Secretary's tentative view was that it would be preferable to do the provisions on insurance in the Committee Stage and to leave measures on heritage and the reliefs until Report Stage. But he would be grateful for urgent advice from the Minister of State.

8 The Chief Secretary said that he was content with the proposals on Agricultural Buildings allowance contained in Mr Bush's minute of 19 May to the Financial Secretary.

9. Mr Sainsbury has since informed me that he has agreed with the Opposition that only Clause 37 will be considered on 22 May. On 3 June Clauses 38 - 51 inclusive will be considered. The timetable for the rest of the Bill has yet to be decided. It now looks as though consideration of new clauses will take place on 12 and 17 June. We are still aiming at Report stage in the week beginning 30 June.

Jill Rutter

JILL RUTTER
Private Secretary

The Royal Institution of Chartered Surveyors
12 Great George Street
Parliament Square
London SW1P 3AD
Telephone: 01-222 7000
Telex: 915443 RICS G

Our Ref: PA4/JAS

Your Ref:

22 May 1986

A W Kuczys Esq
Private Secretary
Chancellor of the Exchequer's Office
The Treasury
Parliament Street
London SW1P 3AG

Dear Mr Kuczys

The 1986 Finance Bill : Capital Allowances for Mineral Extraction

The Institution submitted a letter to the Chancellor yesterday on the above subject. Unfortunately, however, two words in that letter were inadvertantly inverted. I am therefore enclosing a revised copy of the letter and apologise for any inconvenience that may have been caused.

Yours sincerely

Michael Chambers.

MICHAEL CHAMBERS
Administrative Secretary
Parliamentary and Public Affairs

The Royal Institution
of Chartered Surveyors
12 Great George Street
Parliament Square
London SW1P 3AD
Telephone: 01-222 7000
Telex: 915443 RICS G

Our Ref: PA2/JAS

Your Ref:

21 May 1986

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

Dear Chancellor

The 1986 Finance Bill : Capital Allowances for Mineral Extraction

The Institution's Taxation Committee has closely studied this year's Finance Bill. One area which is of major interest to us is the new code of allowances for capital expenditure on mineral expenditure. A number of points in Schedule 12 give us cause for concern and we wish to propose a number of essentially technical amendments. These are set out below.

Clause 49/Schedule 12 : New code of allowances for capital expenditure on mineral extraction

(a) Schedule 12 Paragraph 3

In our original submission to you on this matter some three years ago (dated 25:9:83) we suggested that the difficulty in defining the term, "a mineral operator", could be met by confining the allowance to land on which planning permission to extract minerals has been granted. However it is now increasingly the practice for local planning authorities, when drawing up their structure plans, to grant only such planning permissions as will maintain a ten year supply of aggregates. Thus, as mineral extraction is necessarily a very long-term business, operators are forced to buy land many years ahead of need on which no planning permission has been granted in the hope that permission for extraction will ultimately be given. Paragraph 4 makes it clear that the allowance

is confined to those who are already engaged in mineral operations. Thus there would seem no logic in insisting upon the planning requirement outlined in Paragraph 3(2). Other capital allowances are given when expenditure is incurred rather than when planning permission is granted and there would seem no reason to treat minerals in any different way.

(b) Schedule 12 : Paragraph 8

This paragraph is of particular importance to the single pit/quarry operator as, if his operation closes, he will cease to be a mineral operator.

Under the Town and Country Planning (Minerals) Act 1981, planning authorities can impose aftercare provisions for a period of five years after restoration has ceased. It is therefore illogical that this Bill should allow only that expenditure to be taken into account which is incurred within the period of three years following the last day on which the operator carried on the trade. We submit that the two sets of legislation should be consistent.

(c) Schedule 12 : Paragraph 9

Clearly it is for Government to set whatever rates of tax it considers appropriate. However we are not altogether clear why the rate in respect of the allowances for mineral assets should be set at a lower rate than that for plant. We would welcome clarification.

(d) Schedule 12 : Paragraphs 18 and 19

These paragraphs relate to the costs which can be taken into account for "second-hand" mineral assets. Whilst the approach adopted is appropriate in the case of plant and machinery, its application to land assets is entirely misguided. The requirement of each is wholly different.

It has long been Government policy to encourage the best working methods and the fullest and most economic use of the nation's mineral assets. As long ago as the 1930's legislation was passed to enable coal mining leases to be amalgamated and boundaries to be straightened. The Coal Act 1938 took all rights into ownership in order to make sure that this result was achieved. Our concern is that the effect of paragraphs 18 and 19 will be to make it cheaper to work new minerals rather than to amalgamate two old adjacent quarries. In many cases it is both feasible and desirable that the boundaries between two

quarries should be worked, especially where this would enable extra depth to be taken. Unfortunately these paragraphs will make such extra working much less likely.

We would also make the following points:

- plant and machinery made and used twenty years ago will be worn out and outdated;

- a mineral asset may increase in value both as a result of inflation and by virtue of the working out of other reserves. Moreover sources can be worked intermittently as demand for them fluctuates;

- whilst a quarry worked in 1900 and subsequently mothballed before it was worked out could now have considerable value, quarry plant in operation in 1900 would now be totally useless;

- the first owner of the mineral asset would have either made no claim or would have paid back all the allowances that he had received on the disposal of the asset.

For all of these reasons we can see no reason why the second owner should not start his occupation with a completely new tax regime.

I hope that you will give consideration to the above points which we would, of course, be very pleased to amplify.

Yours sincerely

H. J. Chambers

cc R W BAKER
Secretary for Parliamentary and
Public Affairs

The Royal Institution
of Chartered Surveyors
12 Great George Street
Parliament Square
London SW1P 3AD
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SW1P 3AG

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This paragraph is of particular importance to the single pit/quarry operator as, if his operation closes, he will cease to be a mineral operator.

Under the Town and Country Planning (Minerals) Act 1981, planning authorities can impose aftercare provisions for a period of five years after restoration has ceased. It is therefore illogical that this Bill should allow only that expenditure to be taken into account which is incurred within the period of three years following the last day on which the operator carried on the trade. We submit that the two sets of legislation should be consistent.

(c) Schedule 12 : Paragraph 9

Clearly it is for Government to set whatever rates of tax it considers appropriate. However we are not altogether clear why the rate in respect of the allowances for mineral assets should be set at a lower rate than that for plant. We would welcome clarification.

(d) Schedule 12 : Paragraphs 18 and 19

These paragraphs relate to the costs which can be taken into account for "second-hand" mineral assets. Whilst the approach adopted is appropriate in the case of plant and machinery, its application to land assets is entirely misguided. The requirement of each is wholly different.

It has long been Government policy to encourage the best working methods and the fullest and most economic use of the nation's mineral assets. As long ago as the 1930's legislation was passed to enable coal mining leases to be amalgamated and boundaries to be straightened. The Coal Act 1938 took all rights into ownership in order to make sure that this result was achieved. Our concern is that the effect of paragraphs 18 and 19 will be to make it cheaper to work new minerals rather than to amalgamate two old adjacent quarries. In many cases it is both feasible and desirable that the boundaries between two

quarries should be worked, especially where this would enable extra depth to be taken. Unfortunately these paragraphs will make such extra working much less likely.

We would also make the following points:

- plant and machinery made and used twenty years ago will be worn out and outdated;

- a mineral asset may increase in value both as a result of inflation and by virtue of the working out of other reserves. Moreover sources can be worked intermittently as demand for them fluctuates;

- whilst a quarry worked in 1900 and subsequently mothballed before it was worked out could now have considerable value, quarry plant in operation in 1900 would now be totally useless;

- the first owner of the mineral asset would have either made no claim or would have paid back all the allowances that he had received on the disposal of the asset.

For all of these reasons we can see no reason why the second owner should not start his occupation with a completely new tax regime.

I hope that you will give consideration to the above points which we would, of course, be very pleased to amplify.

Yours sincerely,

N. J. Chambers

R W BAKER
Secretary for Parliamentary and
Public Affairs

5.53

FROM: N G FRAY
DATE: 23 May 1986

MR DYER

FINANCE BILL STANDING COMMITTEE 'G'

The Chancellor was most grateful for the briefing you provided for his 'look-in' on the Finance Bill Standing Committee.

N G FRAY

353/24

PUP

FROM: Deputy Parliamentary Clerk
DATE: 23 May 1986

01-233 5532

PPS
PS/CHIEF SECRETARY
PS/FINANCIAL SECRETARY
PS/ECONOMIC SECRETARY
PS/MINISTER OF STATE

cc PS/IR
PS/C&E
Miss C E C Sinclair - FP
Mr M Haigh - FP
Mr K Romanski - FP

STANDING COMMITTEE G - COMMITTEE STAGE OF THE FINANCE BILL 1986

Please refer to my minute of 1 May listing members of the Finance Bill Standing Committee (G).

2. The Committee of Selection yesterday discharged Mr John Moore and Mr John Ward and appointed Mr Norman Lamont and Mr David Heathcoat-Amory.

Richard Savage

RICHARD SAVAGE

1739/043

FROM: MISS C E C SINCLAIR
DATE: 30 May 1986

CHANCELLOR

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Sir P Middleton
Mr Cassell o/r
Mr Monger
Mr Scholar
Mr Haigh
Mr Cropper
Mr Ross Goobey
A J G Isaac IR
A M W Battishill
M A Johns IR

FINANCE BILL: OUTSTANDING ISSUES

You asked for a note on the main outstanding issues connected with the Finance Bill for your meeting on 2 June. I attach this in the form of an annotated agenda. It is based on discussion with the Revenue.

2. I have not included Boarding School Allowances, as the Chief Secretary has this in hand.

3. I have included the permitted level of investment in unit trusts/investment trusts under Personal Equity Plans. Although a decision on this is not needed for Finance Bill purposes (it will be dealt with in Regulations), you may wish to consider this issue further in the light of the discussions with the unit trust/investment trust industry reported in Mr Cassell's minute of 19 May to the Financial Secretary. Detailed discussions are underway at official level on a number of aspects of Personal Equity Plans (eg the implications for the Financial Services Bill). I recommend that a final decision on the level of unit trust/investment trust investment should not be taken until you have had further advice on other aspects of the rules governing Plans. This will be submitted before your meeting on 11 June.

MISS C E C SINCLAIR

STAMP DUTY

- Main outstanding point is Goldman Sachs problem (charge to be paid on ADR transactions where shares deposited are already owed by the depositor). Revenue are to provide further advice, based on consultations with Bank and Treasury, on the possibility of a reduced charge in cases where the share is transferred into ADR form within a specified time limit of purchase.

CHARITIES

- Main outstanding issue is whether convenanted payments by trading subsidiaries to their parent charity should be subject to deduction of tax, or paid gross. Possibility of Revenue clearance procedure to allow latter in case of specific charities. Mr Beighton's minute of 30 May gives further advice.

PENSION FUND SURPLUSES

- Should safety margin over pension fund liabilities be limited to 5 per cent or 10 per cent? Mr Monger's minute of 30 May discusses.

- Override power for trustees to make payment to employer - role of OPB in authorising modification of rules - Revenue to report orally on progress.

INHERITANCE TAX

- Chief Secretary has questioned the form of the taper to protect the death charge. Mr Houghton's note of 30 May gives advice.

GOLDEN HANDCUFFS

- Do we legislate or not in 1986? At your meeting on 23 April you decided against immediate action, but said that legislation should be prepared on a contingency basis in case abuse grew. Since the Budget there has been relatively little press comment.

But interest may be stirred by the PQ, for answer on 3 June, outlining the proposed amendment to the taxation of lump sum payments. On balance, the case for acting in 1986 does not look overwhelming. Can preparatory work on legislation on handcuffs now be dropped, to ease pressure on Parliamentary Counsel? Or do you want to keep this option open until we know the reaction in Committee to the Clause on lump sum payments?

ENTERTAINERS AND SPORTSMEN

- Mr Cayley's submission of 23 May explained that some important areas would be covered in Regulations (eg the definition of entertainers and sportsmen and the type of income to be caught). This may give rise to criticism in Committee, particularly if it does not prove possible to include in primary legislation the basic rule for the calculation of with-holding tax. There may be difficulty in having the draft legislation ready on 2 June, but it should be ready shortly thereafter.

PRT PRICING AND VALUATION RULES

- Mr Pitts' submission of 15 May gave the Revenue's current assessment of the problems on prices taken under arms' length sales, and valuations of non-arms' length sales. You expressed concern about the last. But it will take time to discover precisely what is going on and devise water-tight solutions. The Revenue have recommended a statement this year leading to legislation next year (Mr Battishill's minute of 29 May to Financial Secretary).

PERSONAL EQUITY PLANS

- Provisional view reached at your meeting on 13 May was that permitted level of investment in unit trusts/investment trusts should be £300 or 25% of total holdings, whichever was the greater. Following discussions with unit/investment trust representatives, Mr Cassell reported that the case for raising the limit to around £500 looked strong. Mr Cropper minuted on 22 May. In separate discussions, M&G/Save and Prosper have

indicated clearly that they would welcome a figure around £600; and would be disappointed by a lower limit since they are trying to encourage higher monthly payments.

- Level of limit ultimately matter of political judgement, balancing aim of encouraging direct investment in equities against need to get support of unit trust/investment trust movement.

351/5

FROM: B O DYER
DATE: 2 June 1986

PUP

01-233 4749

CHIEF SECRETARY

cc Chancellor
Financial Secretary
Economic Secretary
Minister of State
Mr Culpin
Mr Haigh
PS/Inland Revenue
PS/Customs and Excise

FINANCE BILL STANDING COMMITTEE : 4.30PM, TUESDAY 3 JUNE 1986

Prior to the Committee resuming its consideration of the Bill tomorrow, the Chairman (Mr Ted Leadbitter) will almost certainly say a few words about the death of Tony Barrett - Clerk of Standing Committees.

His death occurred during the recess. He had been ill for some time with cancer of the pancreas. He died peacefully at home after spending a number of weeks in Westminster Hospital.

Mr Barrett was Clerk to the Finance Bill Standing Committee last year and also in 1984. He was 55, and left one son and one daughter by his first marriage, which was dissolved in 1977. He married again in 1981.

B O DYER
Parliamentary Clerk

SS 4210/025

1. Tony to be aware

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
H M Treasury
Parliament Street
London SW1

5 June 1986

Dear Nigel

The Bursar of All Souls College Oxford has drawn my attention to the difficulties which part of the current Finance Bill may cause for Oxbridge colleges and other educational charities. The provisions intended to restrict the tax reliefs available to private indirect charities will apparently also affect bona fide charities. I understand that you are already aware of this problem and that your officials are considering how it might be overcome. I am writing now simply to say that, as you might expect, I support the case being made by the educational charities and trust that every effort will be made to find an acceptable solution. Perhaps you would let me know if that does not seem possible.

Yours

287 ITCHAR

Inland Revenue

Policy Division
Somerset House

FROM: MRS C B HUBBARD
DATE: 9 JUNE 1986

1. MR PITTS

I recommend you to make the change Mrs Hubbard discusses below. This would be done at Report Stage of the Finance Bill. DH 9/6.

2. FINANCIAL SECRETARY

FINANCE BILL: MINES AND OIL WELLS ALLOWANCES: RELIEF FOR MINERAL ASSETS FROM DATE EXPENDITURE INCURRED

1. During the Committee debate on amendment 243 last Thursday, you undertook to consider further the case for giving relief for mineral assets from the date on which the expenditure was incurred, rather than deferring relief until planning permission to work the minerals was obtained. This note sets out the background to the present provision in the Finance Bill, and the arguments for and against a relaxation of the planning permission requirement.

Background

2. The rules for relief under the old MOWA code (Section 60) provided that the miner must be entitled to work the mine etc at the date of acquisition. This meant that the planning

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cc Chancellor
Chief Secretary
Economic Secretary
Minister of State
Mr Cassell
Mr Robson
Miss Sinclair
Ms Leahy
Mr Cropper

Mr Graham -
Parliamentary Counsel

Mr Battishill
Mr Pollard
Mr Painter
Mr Pitts
Mr Elliss - OTO
Mr Beauchamp - OTO
Mrs Hubbard
Mr Bush
Mr Cleave
Mr Pang
Mr Alderman
Mr Harrison - OTO
Mr Pascoe
PS/IR

permission to work the minerals had to be extant when he purchased the asset, otherwise there was no relief at all. Although we think that in practice this condition may not have been rigidly applied by the tax districts, de facto the relief could only have been given in cases where consent was granted, because relief under the old code was only given when the working of the source had begun. Nevertheless the representative bodies were aware that it was the strict interpretation of S.60. The industry were hoping that the move to the incurred basis, announced in the consultative document, would provide immediate relief for all past expenditure on mineral assets currently in their land banks and all such future expenditure, irrespective of whether planning permission had yet been obtained.

3. We have allayed the industry's fears about the risk that expenditure on mineral assets without planning permission might be excluded from relief entirely, as was the strict position under the old code, but Paragraph 3 of Schedule 12 provides that relief will only start to run from the date on which entitlement to work the minerals (including planning permission) is obtained. The main reasons for the decision not to give relief until that stage were as follows:

a) it would ensure that we do not give relief for land which is never put to mineral use (eg held for speculative purposes). Land can be put to many uses, and our formula to deduct the undeveloped market value of the land from the acquisition cost would not ensure that we did not also give relief for alternative hope value - eg building development as well as hope value for mineral use;

b) if there is no entitlement to work the minerals, it is difficult to see that the land acquired actually constitutes a mineral asset acquired for the purposes of the mining trade;

c) the trigger of planning permission, by not giving relief long before the mineral asset could begin to

depreciate, would be more in accord with the philosophy of the revised capital allowances code which has moved away from accelerated depreciation towards commercial depreciation as the asset depreciates;

d) deferral avoids possible difficulties over recovery of allowances given in cases where no planning consent is obtained.

The case for immediate relief

4. There has been almost universal complaint on this particular provision in the new MOWA code from the industry, in particular by the CBI, the Institute of Chartered Accountants, the Royal Institution of Chartered Surveyors, the British Aggregate Construction Materials Industries, and the Mining Association of the United Kingdom. In fact, the reaction has been much stronger than we had expected. We had assumed that, because we were moving away from the very strict position under the old code, and because we believed that in the majority of cases land was acquired with planning consent, this compromise of relief from the date of entitlement would be generally accepted. The main arguments put against it have been as follows:

a) It denies the full benefit of the advancing of relief to the date the expenditure is incurred in cases where land is acquired without permission. They quote other examples of relief being given for, say, items of plant and machinery, which might start some time before the asset is brought into use. Some have suggested that if mineral use never materialised as planning consent was denied, the relief given could be recaptured on a balancing adjustment when the land was put to another use or disposed of.

b) They argue that they would not be interested in acquiring mineral bearing land if there was little prospect of obtaining planning consent. If there was

a high hope value for alternative development, they would not be likely to acquire the land, as they would be outbid by other developers.

c) They claim that they have to purchase when the opportunity arises, and that the Department of the Environment encourage aggregate producers to maintain landbanks equivalent to about ten years' supply, even though planning consents might be restricted to about five years' forward supply of construction materials.

d) As the cost of the land is being removed from the purchase price before relief is given, the risk of abuse is minimal. If there was little hope of obtaining planning permission, the premium paid for the minerals, on which relief would be available, would be correspondingly small.

5. A further general complaint by the representative bodies is that the consultative process has produced no change at all on the main provisions on which they had argued for some relaxation. These main points were all the subject of backbench amendments in last Thursday's debate, namely an extension of the post-trading relief for restoration costs, the rate of relief for mineral assets (from 10% to 25%), the removal of the restriction of a purchaser's allowances to the previous trader's costs, as well as this advancing of relief for mineral assets to the date expenditure is incurred. As we have recommended strongly against conceding on any of the other points, you may feel that some relaxation here might be appropriate.

Cost

6. Although this is an issue which has provoked a surprising degree of complaint, we do not estimate that a concession here would have a significant cost. In fact, because our initial costing of the MOWA proposals was on a maximum cost basis (given the sparsity of information on which to base estimates), there

no reduction made to take account of the fact that relief would not run until planning permission was obtained. A change here would not, therefore, have any effect on the estimated cost of £45m in 1987/88.

Recovery of allowances

7. If a change were to be made, deleting sub-paragraphs (1) and (2) of Paragraph 3 of Schedule 12, we would wish, as was pointed out in the debate, should a mineral operator fail to obtain planning permission for mineral development, to recover allowances given to date when the asset was sold or put to an alternative use. What tends to happen at present is that mineral operators acquire land, usually farming land, for their mineral landbanks, and, prior to its use for minerals development, the land continues to be farmed. We see no difficulty here, as the farming value of the land is deducted from the acquisition cost in arriving at the value of the minerals to be relieved. If, therefore, following the failure to obtain planning consent, it continued to be farmed, and was not sold, there would be no occasion for the recovery of allowances, but, arguably, this is acceptable, because the mineral operator has paid a premium for something which never materialised, and continues to get relief as he would for any other asset which is not disposed of, but which is no longer used for the trade (cf Plant and Machinery). (The only question is whether it can ever be said to have been acquired for the purposes of his trade.)

8. We already have the machinery to recover allowances on a disposal, but would need to strengthen our provisions to ensure that recovery of allowances could commence when the mineral operator put the asset to an alternative development, eg building development by himself. In such a case, under the present rules in Schedule 12, we would only be able to claw back allowances when he ultimately disposed of the building. A minor, consequential, amendment would therefore be required.

Conclusion

9. There has been an almost universal demand for a relaxation of the planning permission requirement; only the oil industry have not made representations on this point, because they are not affected by this provision, as an oil licence is not an interest in land. If you wish to hold firm, the arguments set out in paragraph 3 above provide a very reasonable defence. If, however, you wish to make a concession here, it could be done at very little cost, and with only a very small consequential amendment.

MRS C B HUBBARD

351/13

01-233 4749

FROM: B O DYER
DATE: 10 June 1986

PS/FINANCIAL SECRETARY

cc PPS
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Mr Haigh
Mr Culpin
Mr Matthews
PS/Inland Revenue
Mr Andrew Walker - IR

FINANCE BILL RESOLUTIONS : WEDNESDAY 11 JUNE

When the Resolutions come before the House tomorrow the Opposition (Mr Terry Davis) may query why so many Resolutions and Government New Clauses are being introduced in Standing Committee. In this event, you may like to draw on the following:

"In all, some 10 Resolutions are required this year because of the nature of the New Clauses:- 7 Ways and Means Resolutions, 2 Procedural Resolutions and 1 Money Resolution.

I accept there are a substantial number of Government New Clauses this year (16); but this does not depart dramatically from past precedent. For example, when the Party Opposite were in Government in 1976, they introduced 11 (Government) New Clauses at Standing Committee stage. And the Bill that year totalled 144 pages compared with 200 this year. In equity, I should also point out that in 1982 there were again 11 Government New Clauses introduced in Standing Committee; when the Bill was 189 pages in length. I do not think, therefore, Hon Members opposite can accuse the Government of doing anything very exceptional this year. Indeed, 10 of the 16 Government New Clauses relate to Stamp Duty or Stamp

Duty reserve tax, which are areas of some complexity where full consideration is essential."

B O DYER

Note: 8 Stamp Duty and 1 Charities NC are still to be tabled.

ORDERS OF THE DAY AND NOTICES OF MOTIONS—*continued*

3 *NORTHERN IRELAND*

Mr Secretary King

That the draft Appropriation (No. 2) (Northern Ireland) Order 1986, which was laid before this House on 7th May, be approved.

4 *PROCEDURE (FUTURE TAXATION) (No. 2)*

Mr Chancellor of the Exchequer

That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may contain provisions taking effect in a future year with respect to activities of entertainers not resident in the United Kingdom and sportsmen not resident in the United Kingdom.

5 *PROCEDURE (LOANS BY PUBLIC WORKS LOAN COMMISSIONERS)*

Mr Chancellor of the Exchequer

That, notwithstanding anything to the contrary in the practice of the House relating to matters which may be included in Finance Bills, any Finance Bill of the present Session may contain provision with respect to the limit imposed by section 4 of the National Loans Act 1968 in relation to loans made by the Public Works Loan Commissioners in pursuance of section 3 of that Act.

6 *FINANCE BILL [MONEY]: Queen's Recommendation signified*

Mr Chancellor of the Exchequer

That, for the purposes of any Act resulting from the Finance Bill, it is expedient to authorise any increase in the sums payable out of or into the National Loans Fund which is attributable to any provision of that Act increasing to £42,000 million, with power to increase by order to £50,000 million, the limit imposed by section 4 of the National Loans Act 1968 in relation to loans made by the Public Works Loan Commissioners in pursuance of section 3 of that Act.

7 *WAYS AND MEANS*

Mr Chancellor of the Exchequer

Double taxation relief: advance corporation tax

That provision may be made amending section 100 of the Finance Act 1972.

8 *WAYS AND MEANS*

Mr Chancellor of the Exchequer

Payments on retirement or removal from office or employment etc.

That provision may be made amending Schedule 8 to the Income and Corporation Taxes Act 1970.

ORDERS OF THE DAY AND NOTICES OF MOTIONS—*continued*

9 *WAYS AND MEANS*

Mr Chancellor of the Exchequer

Stamp duty (loan capital)

That provision may be made with respect to stamp duty in relation to loan capital.

10 *WAYS AND MEANS*

Mr Chancellor of the Exchequer

Stamp duty (depositary receipts)

That provision may be made with respect to stamp duty in relation to instruments transferring securities to persons concerned with depositary receipts.

11 *WAYS AND MEANS*

Mr Chancellor of the Exchequer

Stamp duty (clearance services)

That provision may be made with respect to stamp duty in relation to instruments transferring securities to persons concerned with clearance services.

12 *WAYS AND MEANS*

Mr Chancellor of the Exchequer

Stamp duty reserve tax (depositary receipts)

That provision may be made for charging stamp duty reserve tax where securities are transferred, issued or appropriated after 18th March 1986 in pursuance of an arrangement (whenever made) relating to a depositary receipt.

13 *WAYS AND MEANS*

Mr Chancellor of the Exchequer

Stamp duty reserve tax (clearance services)

That provision may be made for charging stamp duty reserve tax where securities are transferred or issued after 18th March 1986 in pursuance of an arrangement (whenever made) relating to the provision of clearance services.

On the Motion for the Adjournment of the House under Standing Order No. 1 Mr Greville Janner proposes to raise the subject of Smith houses in Leicester.

COMMITTEES

STANDING COMMITTEES

1 **Standing Committee B** **10.30 a.m.** **Room 12** (public)

To consider the Land Registration Bill [*Lords*].

Finance Bill, *continued*

NEW CLAUSES

Limit for local loans

Mr John MacGregor

NC11

To move the following Clause—

'In section 4(1) of the National Loans Act 1968 (which provides that the aggregate of any commitments of the Public Works Loan Commissioners in respect of undertakings to grant local loans and any amount outstanding in respect of the principal of such loans shall not exceed £28,000 million or such other sum not exceeding £35,000 million as the Treasury may specify by order) for the words "£28,000 million" and "£35,000 million" there shall be substituted respectively "£42,000 million" and "£50,000 million".'.

Double taxation relief : advance corporation tax

Mr John MacGregor

NC12

To move the following Clause:—

'(1) With respect to accounting periods beginning on or after 3rd June 1986, section 100 of the Finance Act 1972 (double taxation relief) shall be amended in accordance with this section.

(2) In subsection (6) (set-off of advance corporation tax against liability to corporation tax on income subject to foreign tax) for paragraphs (*b*) and (*c*) there shall be substituted—

"(*b*) the amount of advance corporation tax which may be set against that liability, so far as it relates to the relevant income, shall not exceed whichever is the lower of the limits specified in subsection (6A) below";

and in the words following paragraph (*c*), the words from "if the limit" to "the relevant income and" shall be omitted.

(3) After subsection (6) there shall be inserted the following subsection—

"(6A) In relation to an amount of income in respect of which the company's liability to corporation tax is taken to be reduced as mentioned in paragraph (*a*) of subsection (6) above, the limits referred to in paragraph (*b*) of that subsection are—

(*a*) the limit which would apply under section 85(2) above if that amount of income were the company's only income for the relevant accounting period; and

(*b*) the amount of corporation tax for which, after taking account of the said reduction, the company is liable in respect of that amount of income.".'.

Loan capital : new provisions

Mr John MacGregor

NC13

To move the following Clause:—

'.—(1) The following provisions shall cease to have effect—

(*a*) in section 62 of the Finance Act 1963, subsections (2) and (6) (commonwealth stock);

Finance Bill, *continued*

(*b*) in section 11 of the Finance Act (Northern Ireland) 1963, subsections (2) and (5) (commonwealth stock) ;
(c) section 29 of the Finance Act 1967 (local authority capital) ;
(*d*) section 6 of the Finance Act (Northern Ireland) 1967 (local authority capital) ;
(*e*) section 126 of the Finance Act 1976 (loan capital).

(2) Stamp duty under the heading " Bearer Instrument " in Schedule 1 to the Stamp Act 1891 shall not be chargeable on the issue of an instrument which relates to loan capital or on the transfer of the loan capital constituted by, or transferable by means of, such an instrument.

(3) Stamp duty shall not be chargeable on an instrument which transfers loan capital issued or raised by—

(*a*) the financial support fund of the Organisation for Economic Co-operation and Development,
(*b*) the Inter-American Development Bank, or
(*c*) an organisation which was a designated international organisation at the time of the transfer (whether or not it was such an organisation at the time the loan capital was issued or raised).

(4) Subject to subsections (5) and (6) below, stamp duty shall not be chargeable on an instrument which transfers any other loan capital.

(5) Subsection (4) above does not apply to an instrument transferring loan capital which, at the time the instrument is executed, carries a right (exercisable then or later) of conversion into shares or other securities, or to the acquisition of shares or other securities, including loan capital of the same description.

(6) Subject to subsection (7) below, subsection (4) above does not apply to an instrument transferring loan capital which, at the time the instrument is executed or any earlier time, carries or has carried—

(*a*) a right to interest the amount of which exceeds a reasonable commercial return on the nominal amount of the capital,
(*b*) a right to interest the amount of which falls or has fallen to be determined to any extent by reference to the results of, or of any part of, a business or to the value of any property, or
(*c*) a right on repayment to an amount which exceeds the nominal amount of the capital and is not reasonably comparable with what is generally repayable (in respect of a similar nominal amount of capital) under the terms of issue of loan capital listed in the Official List of The Stock Exchange.

(7) Subsection (4) above shall not be prevented from applying to an instrument by virtue of subsection 6(*a*) or (*c*) above by reason only that the loan capital concerned carries a right to interest, or (as the case may be) to an amount payable on repayment, determined to any extent by reference to an index showing changes in the general level of prices payable in the United Kingdom over a period substantially corresponding to the period between the issue or raising of the loan capital and its repayment.

(8) Where stamp duty under the heading " Conveyance or Transfer on Sale " in Schedule 1 to the Stamp Act 1891 is chargeable on an instrument which transfers loan capital, the rate at which the duty is charged under that heading shall be the rate of 50p for every £100 or part £100 of the amount or value of the consideration for the sale to which the instrument gives effect.

(9) This section applies to any instrument which falls within section 60(1) of the Finance Act 1963 and is issued after 31st July 1986.

(10) This section applies to any instrument which falls within section 60(2) of that Act if the loan capital constituted by or transferable by means of it is transferred after 31st July 1986.

Finance Bill, *continued*

(11) This section applies, in the case of instruments not falling within section 60(1) or (2) of that Act, to any instrument which is executed after 31st July 1986.

(12) Subsections (6), (8), (9) and (13) of section 65 above shall apply as if references to that section included references to this.'.

Payments on retirement or removal from office or employment etc.

Mr John MacGregor

NC14

To move the following Clause:—

'(1) Schedule 8 to the Taxes Act (relief as respects tax on payments on retirement etc.) shall have effect subject to the following provisions of this section, and in those provisions that Schedule is referred to as "Schedule 8".

(2) On and after 4th June 1986, paragraph 10 of Schedule 8 (aggregation of two or more payments in respect of the same office etc.) shall have effect with the substitution for the words "paragraph 7" of the words "paragraphs 7 and 7A".

(3) Paragraph 12 of Schedule 8 (which provides that any reference in the Schedule to a payment in respect of which tax is chargeable under section 187 of the Taxes Act is a reference to so much of that payment as is chargeable to tax after deduction of relief) shall not apply to any payment which, under subsection (4) of that section, is treated as income received on or after 4th June 1986 and, accordingly, paragraphs 7 and 7A of Schedule 8 shall apply to every such payment without making any deduction therefrom on account of relief under section 188(3) of that Act.

(4) In any case where—

(*a*) tax is chargeable under section 187 of the Taxes Act in respect of two or more payments to or in respect of the same person (whether or not in respect of the same office or employment) and is so chargeable for the same chargeable period, and

(*b*) under subsection (4) of that section at least one of these payments is treated as income received before 4th June 1986 and at least one of them is treated as income received on or after that date,

then, in the application of paragraphs 7 and 7A of Schedule 8 (in accordance with paragraph 10 or paragraph 11 thereof) in relation to any of those payments which is so treated as income received on or after that date, subsection (3) above shall have effect as if any reference therein to 4th June 1986 were a reference to the first day of the chargeable period referred to in paragraph (*a*) above.'.

Penalty for tax evasion : liability of directors etc.

Mr John MacGregor

NC15

To move the following Clause—

'(1) Where it appears to the Commissioners—

(*a*) that a body corporate is liable to a penalty under section 13 of the Finance Act 1985 (civil penalty for value added tax evasion where conduct involves dishonesty), and

(*b*) that the conduct giving rise to that penalty is, in whole or in part, attributable to the dishonesty of a person who is, or at the material time was, a director or

Finance Bill *continued*

managing officer of the body corporate (in this section referred to as a " named officer "),

the Commissioners may serve a notice under this section on the body corporate and on the named officer.

(2) A notice under this section shall state—

(*a*) the amount of the penalty referred to in subsection (1)(*a*) above (in this section referred to as " the basic penalty ") ; and

(*b*) that the Commissioners propose, in accordance with this section, to recover from the named officer such portion (which may be the whole) of the basic penalty as is specified in the notice.

(3) Where a notice is served under this section, the portion of the basic penalty specified in the notice shall be recoverable from the named officer as if he were personally liable under section 13 of the Finance Act 1985 to a penalty which corresponds to that portion ; and the amount of that penalty may be assessed and notified to him accordingly under section 21 of that Act.

(4) Where a notice is served under this section,—

(*a*) the amount which, under section 21 of the Finance Act 1985, may be assessed as the amount due by way of penalty from the body corporate shall be only so much (if any) of the basic penalty as is not assessed on and notified to a named officer by virtue of subsection (3) above ; and

(*b*) the body corporate shall be treated as discharged from liability for so much of the basic penalty as is so assessed and notified.

(5) No appeal shall lie against a notice under this section as such but,—

(*a*) where a body corporate is assessed as mentioned in subsection (4)(*a*) above, the body corporate may appeal against the Commissioners' decision as to its liability to a penalty and against the amount of the basic penalty as if it were specified in the assessment ; and

(*b*) where an assessment is made on a named officer by virtue of subsection (3) above, the named officer may appeal against the Commissioners' decision that the conduct of the body corporate referred to in subsection (1)(*b*) above is, in whole or part, attributable to his dishonesty and against their decision as to the portion of the penalty which the Commissioners propose to recover from him.

(6) For the purposes of the Value Added Tax Act 1983, any appeal brought by virtue of subsection (5) above shall be treated as an appeal under section 40 of that Act ; and the reference in subsection (1A) of that section to an amount assessed by way of penalty includes a reference to an amount assessed by virtue of subsection (3) or subsection (4)(*a*) above.

(7) The provisions that may be included in rules under paragraph 9 of Schedule 8 to the Value Added Tax Act 1983 (procedure on appeals to value added tax tribunals) include provision with respect to the joinder of appeals brought by different persons where a notice is served under this section and the appeals relate to, or to different portions of, the basic penalty referred to in the notice.

(8) In this section a " managing officer ", in relation to a body corporate, means any manager, secretary or other similar officer of the body corporate or any person purporting to act in any such capacity or as a director ; and where the affairs of a body coporate are maanged by its members, this section shall apply in relation to the conduct of a member in connection with his functions of management as if he were a director of the body corporate.

(9) This section does not apply where the conduct of the body corporate giving rise to the penalty took place before the passing of this Act.'.

Finance Bill, *continued*

Entertainers and sportsmen

Mr John MacGregor

NC18

To move the following Clause:—

'Schedule [*Entertainers and Sportsmen*] to this Act (which relates to non-resident entertainers and sportsmen) shall have effect.'.

Section 74 : exceptions and special cases

Mr John MacGregor

NC23

To move the following Clause:—

'(1) Section 74 above shall not apply as regards an agreement to transfer a unit under a unit trust scheme to the managers under the scheme.

(2) Section 74 above shall not apply as regards an agreement to transfer the stock constituted by or transferable by means of—

(*a*) an overseas bearer investment, within the meaning of the heading "Bearer Instrument" in Schedule 1 to the Stamp Act 1891 ;

(*b*) an inland bearer instrument, within the meaning of that heading, which does not fall within exemption 3 in that heading (renounceable letter of allotment etc. where rights are renounceable not later than six months after issue).

(3) Subsection (4) below applies where the chargeable securities mentioned in section 74(1) above consist of stock constituted by or transferable by means of an inland bearer instrument, within the meaning of that heading, which—

(*a*) is exempt from stamp duty under that heading by virtue of exemption 3 in that heading, or

(*b*) would be so exempt if it were otherwise chargeable under that heading.

(4) In such a case section 74 above shall have effect as if the following were omitted—

(*a*) in subsection (2) the words from the beginning to "expires" ;

(*b*) subsections (3) to (5) and (9).'.

Employment bonds

Sir William Clark
Mr Tim Rathbone
Mr Andrew MacKay

NC1

To move the following Clause:—

'1. Income from employment bonds shall be exempt from income tax and gains realised on a disposal of employment bonds shall not be chargeable gains.

2. Employment bonds are securities issued by a body corporate resident and carrying on a qualifying trade in the United Kingdom the issue of which has been approved by the Board.

3. The Board shall not approve an issue of securities for the purposes of this section unless satisfied that—

(*a*) the proceeds of the issue will be used for the purposes of a qualifying trade carried on in the United Kingdom ;

ESD6AM08

DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

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

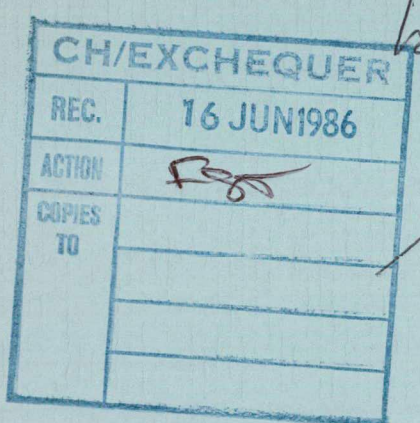
16 June 1986

Dear Nigel

I enclose copies of the correspondence that I have had with Jeremy Benson about the Finance Bill. I should be grateful if you would bear in mind the points he makes.

Yours

16/6



DEPARTMENT OF EDUCATION AND SCIENCE
ELIZABETH HOUSE YORK ROAD LONDON SE1 7PH
TELEPHONE 01-934 9000

FROM THE SECRETARY OF STATE

Jeremy Benson Esq
St Andrew-By-The-Wardrobe
Queen Victoria Street
London EC4V 5DE

6 June 1986

Dear Jeremy

Many thanks for your letter of 6 June which I am forwarding to Nigel Lawson with the request that he should bear in mind the points you make.

Yours ever

Kenneth

JOINT COMMITTEE
Society for the Protection of Ancient Buildings
Council for British Archaeology
Ancient Monuments Society
Georgian Group
Victorian Society
Civic Trust

Chairman:
THE DUKE OF GRAFTON

Please reply to:
ST. ANDREW-BY-THE-WARDROBE,
QUEEN VICTORIA STREET,
LONDON, EC4V 5DE.
Telephone: 01-236 3934

Trust fund 16 - Nigel Lawson

TG. 598f.23

The Rt. Hon. Kenneth Baker, MP,
House of Commons,
London SW1A 0AA.

6th June 1986

Dear Kenneth - if I may still!

Inheritance Tax: the need for a maintenance fund tax provision

Knowing that you will still have these matters at heart I hope I do not presume too much if I write to you on a problem - a serious problem - that will arise for the heritage if the Finance Bill's Inheritance Tax provisions go through without a major amendment which the Government do not seem to have taken on board as yet.

You will know that the owner of, say, a magnificient house with a splendid park and marvellous contents can take the opportunity offered by the new provisions to give it all and most of the rest of the estate and his portfolio to his heir in a 'potentially exempt transfer' and then move to a little house to live out seven years in the hope that by so doing he will have successfully passed the whole lot to the heir, free of tax. I call all this an 'open window of opportunity' and am sure that many will try to slip through it. It may be a window opened for small businesses, but who could blame others who use it!

But such an owner or owners may not survive, or their gifts may be held to have been made with 'reservations', and it is even possible (perish the thought - but there is the risk!) that the next government may not be a Conservative government and that it will 'slam the window shut' and in the process seek to catch them, or rather their heirs and tax them on the property transferred. For whatever reason if this happens the tax due may be as heavy as it would be, at 60 percent, the marginal rate, on the value of the property at death, as though the donors had died possessed of it all. Certainly this is too much tax to cover by insurance, the cost could be quite prohibitive and the premiums cripling in themselves.

If donors are caught then the heirs, who have to pay the tax, can take conditional exemption from the tax on the entities of house, park and contents etc. on giving 'undertakings' to maintain, repair, preserve and show etc.

But at present there is no way, having 'attempted to slip through the open window' of their avoiding the tax on the rest of their estates and portfolios - the supporting assets so essential to the viability of such heritage properties. These are the assets that under 'dear old CTT' could have been passed exempt to a maintenance fund.

Granted these supporting assets could have been settled in maintenance funds exempt at the outset but to do that would be to encumber the heirs with public access for life and more rigorous repair requirements than they might be prepared to accept. The options for each property would be much reduced in the setting up of such a fund. I see such funds not being set up in the circumstances I envisage. This, also, is the advice that I hear is now being given by professional advisers to their clients. It is very dangerous for the heritage.

Amendments have been tabled by William Powell, to bring in the essential provision to allow supporting assets caught for tax in 'failed potentially exempt transfers' to be settled in maintenance funds exempt of Inheritance Tax.

Can I persuade you to have a word with Treasury Ministers your sucessor and colleagues on all this? Please. It does matter and is urgent and not only because the relevant schedule will be taken by the Committee in 7-10-14 days but also because anybody who makes his gift now is running straight into the risks that I have outlined - so to wait for the next year's Bill, just to save parliamentary time now, is no answer, and the risk is greatest for those properties belonging to the donors who die soonest.

I should add that though I now write for the National Amenity Societies the Historic Buildings and Monuments Commission (where I am the Commissioner particularly charged with tax problems) is equally seized with the importance of this matter. Without action we all see the inevitability of case after case needing expensive Government intervention through the National Heritage Memorial Fund and National Trusts etc.

I believe that a longer explanation of all this and of the finer points of detail will not be too indigestible to you! I should risk that anyway!! So I enclose a copy of my Tax Group report to the Joint Committee as well as a brief paper on the two main points. I have written all this to the Historic Buildings and Monuments Commission who have accepted my view, and it has been checked by the Commission's own Tax Group (which I chair). The batch of Government amendments tabled on 2nd June do not answer the problem - I just pray that there are more in the pipeline but I have no wind of them yet from officials.

Sincerely

Jeremy Benson
Vice Chairman and
Chairman of Tax Group

Enclosures.

INHERITANCE TAX and HERITAGE PROPERTIES,
Failed Potentially Exempt Transfers and the 'Life Tenant Problem'.

By Jeremy Benson, 28.5.86.

The introduction of 'Inheritance Tax' brings with it new complexities for those owners anxious to do the best they can for their families and successors and for any important heritage properties that they may own.

Where ownership is in trust, the regime to which we have become accustomed under CTT persists but with personal ownership there is suddenly a new situation to be taken into account. It is becoming possible to make a lifetime gift, a 'potentially exempt transfer or 'PET', and escape tax on it provided the owner survives and provided he makes his gift 'free of reservations' and does nothing to risk that position in the remainder of his lifetime. There is 'a window of opportunity' open now through which he sees his property can be passed to his successor exempt of tax, for this generation at least.

Inevitably, in the present political situation, advisers must point to the possiblity that the window will be closed by the next Government if that is not of the present complexion - so there is a temptation, one difficult for many to resist, to make lifetime gifts of not only heritage properties but of the 'supporting assets' so essential for the support of that properties, and without more ado.

Given that such donors survive their seven-year qualifying periods, that their gifts are not found to have been made with reservations and that some administration or other makes no changes to frustrate such potentially exempt gifts, the owners's aims may be achieved and the donees will perhaps be able to enjoy the heritage properties complete, exempt of tax and viable each with its supporting assets.

But the certainty is that some of the 'PETs' so made will fail, and fall to be taxed, by reason of untimely deaths, or be held to have been made with reservations, with the result that tax will be charged at death rates. There is also the risk that many more - perhaps all such PETs - will fail as a result of a change of fiscal law designed to 'slam the window shut' and catch those who thought they had successfully slipped through it.

If so, for whatever reason, what will happen under the Bill with respect to each such 'failed PET' is that either tax will be paid to the detriment of the heritage property, probably precipitating sales, or conditional exemption may be taken, as now under CTT, with respect to the heritage property itself **but not on the supporting assets** without which viability is at risk, without which it may simply not be worth taking conditional exemption and trying to hold together the heritage property itself.

This is a **very serious situation** and it comes about simply because conditional exemption under CTT was, quite properly, limited to heritage property. However, the fundamental insufficiency of that arrangement was recognised as long ago as 1976 when Labour brought in 'Maintenance Funds' into which supporting assets could be settled under, in effect, conditional exemption with new controls and undertakings given to repair, maintain, preserve and show the heritage property in question. Given that there was then no open window and potential exemption that was enough, but the situation is different now, and much more critical.

It may be argued that maintenance funds still provide the answer to all the risks posed - but that is a half-truth, or rather less, for who is going to voluntarily settle his supporting assets in a maintenance fund under conditional exemption and at the same time encumber himself with obligations to show, maintain, repair and preserve his property when, with the risk of an early death affecting the PET taken, they can slip through, in the sure and certain expectation all owners seem blessed with of more than 7 years' survival and another Conservative administration!

It may also be argued that prudent donees will insure themselves against their donors' untimely deaths bringing down tax at up to 60%, if not on their heritage properties, on which they can take conditional exemption, then at least on the supporting assets - at very considerable expense. As to whether or not they would ever be able to insure against a change in fiscal provisions resulting in a tax charge given that the donor survives and that the gift is not held to be one made with reservations, that is doubtful - but the cost would obviously be very high.

Even insurance arrangements will not necessarily work to safeguard heritage properties, for the insurance money may well be used in the event to pay tax charges on heritage properties, not replenish supporting assets after tax whilst conditional exemption is taken on the properties themselves. The inevitable result of such arrangements would be that viability would be lost and that the heritage properties, now thankfully unencumbered by conditional exemption, would be more at risk of dispersal by sale.

The **situation is thoroughly unsatisfactory, but easily remedied.** All that is necessary is to **allow supporting assets that are charged to Inheritance Tax to be passed into a maintenance fund within 2 years of the death that gives rise to the tax.** Without this change made now, when it can be done easily, and as part of the completion of the admitedly incomplete Inheritance Tax regime, almost every heritage property that is passed through that open window is seriously at risk to not only the future distress of the people concerned and damage to their heritage properties (and also to employment and tourism) but also evidently at risk of dispersal only to be prevented by heavy Government expenditure in expensive salvage operations through the National Heritage Memorial Fund, the National Trusts and other charities.

The 'Failed PET' risk is **best dealt with now**, by amendment of the Finance Bill in Committee using an amendment of which this is the latest draft version -

Schedule 18, page 172, line 44, after 'transferor' insert -

'or which comprises property which by an instrument in writing by the transferee or transferees within a period 2 years after the transferor's death [(or 3 years if the instrument could not take effect except as a result of some proceedings before a Court)] becomes settled property in respect of which a direction is given under paragraph 1 of Schedule 4 to this Act to the extent of such property'.

Note the words in square brackets in the draft above may be superflous.

The other major risk in the conditional exemption/maintenance fund system is not new but it is aggravated by the bringing in of Inheritance Tax. It has been dubbed 'the life tenant problem' - the problem which caused so much difficulty over Calke Abbey - and it is now known that there are all too many other important heritage properties at risk of the same sort of debacle. Again, the remedy is to hand and can easily be covered in two amendments to the Finance Bill in Committee,
thus -

Schedule 18, page 178, line 38, at the end insert -

'(a)'.

Schedule 18, page 178, line 40 at the end insert -

'(b) the following subsection shall be added at the end -

"(5A) Subsection (5) above restricting relief shall not apply to property a transfer of value of which would but for that subsection be exempt under section 27 above as extended by section 57(5) above to property remaining comprised in the settlement and where the disposition could not have been varied except as a result of some proceedings before a Court subsection (1) above shall take effect if the instrument in writing is made within three years of the date of death.".'.

Jeremy Benson

[IHTRISKS]

14357/86
20203/86
19287/86

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

24 June 1986

Nicholas Hinton Esq CBE
Director General
The Save The Children Fund
Mary Datchelor House
17 Grove Lane
Camberwell
LONDON SE5 8RD

Dear Mr Hinton

Thank you for your letters about Clause 29 and Schedule 7 in the Finance Bill, which were concerned with measures to curb the abuse of tax relief for charities.

As you know, this Finance Bill contained a substantial package of measures to promote the activities of charities. But, at the same time, I thought it necessary to take action to deal with the growing problem of the abuse of charitable status, which threatens the good name of charities. Clause 29 and Schedule 7 were intended to do this.

Representations made after the Finance Bill was published made it clear that Clause 29 and Schedule 7 as drafted were drawn far too widely, and would affect the activities of genuine bona fide charities in a way which we had never intended. Accordingly, we immediately undertook to engage in urgent consultations with representatives of charities including yourself to discuss how we might best cope with the very real problem of charitable abuse without these wholly undesirable side effects. In the light of that process of consultation, we have now brought forward a new and revised clause to remedy the deficiencies in the original one.

We remain convinced that it is right to tackle the problem of charitable abuse in this year's Finance Bill. It would be impossible to extend the tax privileges of charities as much as we have done in this year's Finance Bill without taking some action on abuse. But the replacement clause drops the distinction between private and public charities, which gave rise to much of the concern about Clause 29.

Instead it concentrates on tackling situations where a charity actually misuses its funds: that is, where it applies its funds for non-charitable purposes, where it passes funds to an overseas body without charitable intent, or where it lends or invests funds in certain carefully defined ways which it cannot show are for the benefit of the charity. In such cases - but only in such cases - the charity may have its tax relief restricted.

We have also introduced a new relief for smaller charities so that those whose taxable income and gains are less than £10,000 - which includes the majority of local charities - will be largely unaffected by the new provision. I know that many such charities would be concerned if they had to comply with new Inland Revenue requirements. So I have made it clear that it is not our intention to impose additional administrative costs on them.

Finally, we have also made a further important change to the provision in response to the representations of the charity movement. We have dropped the proposals to restrict relief in certain circumstances where a charity accumulates income. On this, and other aspects, we propose over the coming months to consult fully with all interested parties, to see whether further action against abuse is needed and, if so, what form it should take.

I am glad to say that many of those who were severely critical of the original clause have already welcomed our readiness to listen to representations and come forward with an alternative approach. As one example of this, I enclose a copy of Lord Goodman's recent letter to the Times.

May I express our sincere thanks for your helpful views during the consultation process.

Yours ever,
Nigel

NIGEL LAWSON

Encl.

Reference 13 JUNE 1986

LETTER FROM 'THE TIMES'

Tax and charities

From the Master of University College, Oxford

Sir, When the Chancellor introduced his Budget proposals, he announced some important concessions to charities. These were received with considerable enthusiasm by many – including myself.

In an article of critical praise, I did venture the warning that vigilance was necessary, since it was the common practice of the Revenue to take back with the left hand what it generously proffered with the right. This warning, alas, proved only too true.

The Budget speech was succeeded by a Finance Bill so appalling both in its content and complexity as to bankrupt description. The effect, however, after hours of painful study, was to make it clear that the Bill would more than neutralize any benefit derived from the changes in principle.

Moreover, and far worse, it was calculated to do immense damage to the whole charitable scene, to place dangerous obstacles in the conduct of charities and in particular to discourage the creation of any new charitable trusts – institutions on which the great majority of charities need to rely.

The Bill was received with a clamour of protest – but enlightened protest – from directors and trustees of charities, organisations advising them and experts on charity law. I may add that my own light baritone was added to this clamour.

To the credit of all concerned, this clamour of democratic protest achieved an unexpected and immensely welcome result. The Treasury, and the Revenue in particular, listened patiently, and the fortunate upshot is that the worst provisions and the most dangerous have now been withdrawn, particularly a singularly maladroit gradation of charities, although the present proposals will still require careful consideration.

It is agreeable to see the democratic process working in front of one's eyes. As chairman of the Council for Charitable Support and of the Association for Business Sponsorship of the Arts, I would like to speak on my own behalf, and I believe on behalf of many others, in proffering gratitude.

Yours,
GOODMAN,
University College,
Oxford.

14267/86

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

24 June 1986

Peter Bottomley Esq MP

Dear Peter,

You wrote to Nigel Lawson on 13 May enclosing this letter from Mr Nicholas Hinton, Director General of Oxfam, about Clause 29 and Schedule 7 in the Finance Bill, which were concerned with measures to curb the abuse of tax relief for charities.

As you know, this Finance Bill contained a substantial package of measures to promote the activities of charities. But, at the same time, the Chancellor thought it necessary to take action to deal with the growing problem of the abuse of charitable status, which threatens the good name of charities. Clause 29 and Schedule 7 were intended to do this.

Representations made after the Finance Bill was published made it clear that Clause 29 and Schedule 7 as drafted were drawn far too widely, and would affect the activities of genuine bona fide charities in a way which we had never intended. Accordingly, we immediately undertook to engage in urgent consultations with representatives of charities including Mr Hinton to discuss how we might best cope with the very real problem of charitable abuse without these wholly undesirable side effects. In the light of that process of consultation, we have now brought forward a new and revised clause to remedy the deficiencies in the original one.

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applies its funds for non-charitable purposes, where it passes funds to an overseas body without charitable intent, or where it lends or invests funds in certain carefully defined ways which it cannot show are for the benefit of the charity. In such cases - but only in such cases - the charity may have its tax relief restricted.

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Finally, we have also made a further important change to the provision in response to the representations of the charity movement. We have dropped the proposals to restrict relief in certain circumstances where a charity accumulates income. On this, and other aspects, we propose over the coming months to consult fully with all interested parties, to see whether further action against abuse is needed and, if so, what form it should take.

I am glad to say that many of those who were severely critical of the original clause have already welcomed our readiness to listen to representations and come forward with an alternative approach. As one example of this, I enclose a copy of Lord Goodman's recent letter to the Times.

I hope that you will express our sincere thanks to Mr Hinton for his helpful views during the consultation process.

Yours ever,

JOHN MacGREGOR

Encl.

Reference 13 JUNE 1988

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Yours,
GOODMAN.
University College,
Oxford.

Inland Revenue

Policy Division
Somerset House

FROM: N C MUNRO
25 June 1986

Ch,
Content with attached draft?
Re
25/6

Principal Private Secretary

PENSION FUND SURPLUSES : TRUST DEEDS PROBLEM

1. The Chancellor has asked to see the standard draft reply on schemes which are prevented by the terms of their trust deed from making refunds.

2. The present position is that DHSS Ministers have agreed in principle to amend the Social Security Bill to take account of this point. The effect of the amendment will be to allow the Occupational Pensions Board, where they think fit, to modify a scheme's rules to enable a refund to be made.

3. The amendment to the Bill will be made at the Lords Report Stage, which is scheduled for the middle of July.

4. DHSS officials have not yet decided on the precise form of the amendment. So they have asked us not to be too specific at this stage about how the problem will be resolved. The attached paragraph represents the most we can say for the present.

N C MUNRO

---

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Cassell
Mr Monck
Mr Monger
Mr Ross Goobey
Mr E Johnston (GAD)
Mr Isaac
Mr Painter
Mr Corlett
Mr Lusk
Mr Munro
Mr Hinton
PS/IR

DRAFT REPLY ON TRUST DEEDS PROBLEM

We accept that there could be a problem where a scheme is prevented by its Trust Deed from making a payment to the employer. I understand that, in some cases, a similar inhibition can exist on an employer's ability to take a contributions holiday. We are considering how best to deal with this problem. I would however see some difficulty with a general provision to override a scheme's Trust Deed (as is sometimes suggested). A better approach might be to permit the Occupational Pensions Board - if they think fit - to authorise a suitable modification of a scheme's rules where such problems arise.

PUP

Save the Children

REGISTERED OFFICE
THE SAVE THE CHILDREN FUND
MARY DATCHELOR HOUSE
17 GROVE LANE
CAMBERWELL
LONDON SE5 8RD
TELEPHONE 01-703 5400

C/ Awaiting advice, but to be aware CR 2/7.

NH/TNP/CC

ITCHAR

HM TREASURY – MOU

REGD.	- 1 JUL 1986
	IR
	cc APs/CHX
CONTROL	CHX
	22577/86

Prem 19287/86
PS7/2154/86

30th June 1986

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

Dear Chancellor,

attached Thank you for taking the trouble to write to me on June 24th 1986.

Having seen the minutes of Standing Committee G on June 17th many of the concerns about drafting and the perhaps deleterious and inadvertent side effects on Charities have been removed. The text however still remains somewhat obscure.

The 'May 8th Group' of Charities, of which we are a member, feel that interpretation of charity purposes has increasingly been given to the Inland Revenue rather than to the Charity Commissioners who should more properly take this responsibility.

This probably reflects the failure of the Charity Commissioners to grapple with breaches of Trust - which should be laid at the door of the Trustees - rather than a fiscal approach which penalizes the Charities themselves. This no doubt is a product of the inability of the Charity Commissioners to find the resources to police and monitor adequately the charity field. Some self-policing may be a solution and the 'May 8th Group' of Charities are fully prepared to put forward suggestions and indeed help in this area.

attached. On the subject of 'Accumulation' I have recently received a copy of a letter written by John MacGregor to Peter Bottomley. It has always been our view that powers already exist, under Charity Law, to curb, control and regulate Trustees. If Accumulation is caused by too narrow objects then the Cy Pres

cont'd

doctrine is already available. John MacGregor's letter suggests that it may not be necessary to take further action, which we would support. We welcome the statement that there will be full consultation with all interested parties. However if further action is to be taken we hope it will be through the medium of a Charities Bill rather than a Finance Bill.

We hope that you will not feel that the foregoing comments are too carping, as all genuine Charities and the 'May 8th Group' in particular feel that the Government has introduced some of the most exciting and challenging opportunities for Charities for generations. If there was initially concern at some of the drafting implications, much of this has been removed during extremely helpful discussions with the Chief Secretary and Financial Secretary to the Treasury, Members of Parliament and the Board of Inland Revenue.

Yours sincerely,

Nicholas Hinton

Nicholas Hinton
Director General

Inland Revenue

Policy Division
Somerset House

FROM: MRS C B HUBBARD
DATE: 30 JUNE 1986

PS/FINANCIAL SECRETARY

FINANCE BILL: REPORT STAGE AMENDMENTS: MOWA - DRAFT LETTER TO OPPOSITION FRONT BENCH

1. I understand that the Chief Secretary has asked that all Report Stage amendments which are ready for tabling today should be so tabled, and that Ministers should write to Opposition Front Bench spokesmen tomorrow, describing the various amendments tabled.

2. I therefore attach a draft letter for the Financial Secretary to send, describing the Mines and Oil Wells amendments tabled.

MRS C B HUBBARD

---

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Robson
Miss Sinclair
Mr Cropper
Mr Graham -
Parliamentary Counsel
Mr Battishill
Mr Pollard
Mr Painter
Mr Pitts
Mr Elliss - OTO
Mr Beauchamp - OTO
Mrs Hubbard
Mr Pang
Mr Walker
PS/IR

1. As you will see from today's Order Paper, we have now tabled some Government Amendments to the mineral extraction allowances code in Schedule 13 of the Finance Bill.

2. These amendments deal with a point discussed in Committee on an amendment tabled by the members for Corby and Slough. I promised then that I would re-examine the issue, and, in the light of that re-examination and the number of representations from the mining industry on this point, we have now agreed that an amendment should be tabled to grant relief for a mineral asset consisting of or including land from the date the expenditure is incurred, even if the person is not yet entitled to work the minerals therein.

3. But, as was pointed out during the debate in Committee by Tony Blair, we would require an adequate machinery to ensure that allowances given could be recovered, should the land in question be put to another use without ever being used as a mineral asset. This package of amendments ensures that result.

(If detailed letter required)

4. The background to the amendments is as follows. As you know, the general rule for the new code of mines and oil wells allowances, as set out in what is now Schedule 13 to this Bill, is that relief will be available from the date expenditure is incurred, provided that a trade of mineral extraction is being carried on, rather than being deferred, as under the old code, until output from the source has begun. An exception was, however, proposed, in sub-paragraphs (1) and (2) of Paragraph

3 of Schedule 13, which provided that where a mineral asset consisting of land was acquired, relief would only start to run from the date on which the person became entitled, for example by obtaining planning permission, to work the minerals concerned. This was because land has many uses, and it is only when, say, planning consent for mineral development is obtained, that it becomes clear that the land in question will actually be a mineral asset.

5. Nevertheless, this proposed deferral of relief provoked a great number of representations from the mining industry, who have pointed out that they have to buy land containing minerals as and when they become available, even though they may not get planning permission to work the minerals until some later date. This point was stressed in Committee by William Powell, and I undertook to re-examine the issue.

6. We have since looked at it again, and, in the light of the many representations received, I have come to the conclusion that it would be appropriate to advance relief to the date the expenditure is incurred, provided that a trade of mineral extraction is carried on. Amendment number (...) therefore deletes sub-paragraph (1) and (2) of Paragraph 3. Nevertheless, as was pointed out by Tony Blair, we need to ensure that, should the land be put to another use without ever being used as a mineral asset, we can recover mines and oil wells allowances already given. The remaining amendments in this package achieve that effect, by writing into Paragraph 10 of Schedule 13, further occasions when a disposal receipt has to be brought

into account, and making some consequential amendments to Paragraph 12 to ensure that the rules for balancing allowances are kept in line, and to Paragraph 18 to ensure that the rules for restricting disposal receipts apply in all cases.

NORMAN LAMONT

Inland Revenue

Policy Division
Somerset House

FROM: J P BATTERSBY
DATE: 30 June 1986

1. Mr Houghton

2. Minister of State

INHERITANCE TAX: REPORT STAGE AMENDMENTS

1. We understand that it has been decided that Ministers should write to the Opposition to give details of amendments as they are tabled.

2. Accordingly, we attach a draft letter for you to send to Terry Davis to cover the Report stage amendments which will appear on the Order Paper tomorrow (1 July).

3. Most of the other technical and consequential amendments we shall be recommending are now drafted, but there is still a little work to do. If you are content, we suggest that it might be sensible to wait until all these can be tabled in one further and final batch, when another letter could be sent to the Opposition if required. But these points

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cc Chancellor of the Exchequer
Chief Secretary
Economic Secretary
Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Byatt
Mr Monger
Mr Scholar
Mr Cropper
Mr Ross Goobey
Mr Graham (Parliamentary Counsel)
Mr Battishill
Mr Isaac
Mr Painter
Mr Houghton
Mr Beighton
Mr Spencer
Mr Battersby
Mr Furey
Mr Kent
Mr Draper
Mr Gonzalez
Mr McKean
Mr Thompson
Mr Denton
Mr Jaundoo
Mrs Evans
PS/IR

are likely to be of less interest than those covered in the attached letter.

JPBy.

J P BATTERSBY

Terry Davis Esq MP
HOUSE OF COMMONS

DRAFT LETTER TO OPPOSITION

1. I thought it would be helpful if I wrote to explain the inheritance tax amendments which appear on the Order Paper for Tuesday 1 July.

Business and agricultural relief

2. Under the original Finance Bill proposals, business and agricultural relief are to be available against a charge, or increased charge to inheritance tax as a result of the death of the transferor within 7 years of the transfer, provided that the recipient still owns the original property transferred at the time the charge arises. During the debate in Standing Committee on what was then Schedule 18, I undertook to bring forward amendments to allow relief to be maintained in cases where, for commercial or other desirable reasons, the original property was replaced by similar property that would also qualify for relief.

3. The bulk of the amendments on the Order Paper are to give effect to this undertaking. They will allow relief against an inheritance tax charge where the transfer is of property that qualified for business or agricultural relief as appropriate, and where, in the period before the transferor's death, the recipient disposes of that qualifying property and reinvests the whole proceeds in other qualifying property which is owned at the time of the transferor's death.

4. The provisions are, I am afraid, somewhat lengthy, but this is in part because they need to cover much the same ground separately for business and agricultural relief because those reliefs have separate provisions at present in the capital transfer tax legislation.

Woodlands

5. There are still a number of cases outstanding from estate duty, where the estate duty (ED) charge that would have arisen on a death on the value of timber has been deferred until the timber is sold. Under capital transfer tax, the period during which ED could become payable on a sale was brought to an end immediately after the first transfer of value of the land concerned, other than an exempt transfer between spouses.

6. We would not want those ED deferred charges to be lost on the making of a transfer which proves to be exempt from inheritance tax because it is made more than 7 years before death: amendments provide that such a transfer of value can continue to bring the ED period to an end, but will not itself immediately be exempt. This amendment applies to transfers of value made on or after 1 July 1986.

Deductibility of debts

7. Clause 98 in the Finance Bill as amended (previously Clause 82) denies deduction from the death estate for certain debts where the consideration has come directly or indirectly from the deceased. We propose to extend the

scope of this provision to counter an avoidance device. This seeks to obtain a deduction against the death estate for a debt relating to a payment to a life insurance company, which is not made until after the death of the life insured, and in return for which the life assurance company makes a payment to a beneficiary chosen by the deceased.

8. This kind of transaction is an attempt to circumvent the death charge, and we have introduced a provision which will deny a deduction unless the whole of the proceeds of the relevant policy are brought into the death estate. The amendment operates on policies issued on or after 1 July 1986. Because we have extended the scope of Clause 98 to deal with this device, sub-section (1) now serves no valuable purpose, and can therefore be deleted.

Conclusion

9. We also intend to bring forward amendments on some other technical and consequential inheritance tax points, and I shall let you have a note of these when they are about to be put down.

3362/43

PS/FST TO PS/CST 1/7

FROM: VIVIEN LIFE
DATE: 1 July 1986

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Economic Secretary
PS/Minister of State
Mr Monger
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Murray
Mr Dyer
PS/IR
PS/C&E

FINANCE BILL: REPORT STAGE

1. Thank you for your minute of 1 July.

2. I note that the Financial Secretary is now doing 9 out of 13 possible debates on opposition or government back bench new clauses and amendments. The workload which this represents will become clearer following the discussion with the opposition front bench this evening.

3. However, it is a point which needs to be taken into account in deciding the allocation of new clauses and amendments tabled between now and Report stage. In addition, he is answering the PAC debate on Thursday, and so will not be able to begin to prepare for Report Stage until Friday. There are three further new clauses in the new paper today:

New Clause 12 - first year allowance for ships

New Clause 30 - replacement of machinery or plant (roll over relief)

New Clause 40 - Employment Bonds.

4. Since Employment Bonds is an issue with which the Economic Secretary is familiar, I have agreed with his office, provisionally, that he will take that Clause if it is taken on a day when he is available. I should be grateful if that point could be taken into account in the discussion of business with the opposition this evening. Separately, I should be grateful if you would ask the Chief Secretary whether he would consider doing New Clause 12 or New Clause 13.

5. Generally, I should be grateful if you and Mr Neilson would show all non-government amendments and new clauses to your Ministers as they appear on the order paper between now and Monday, asking them to consider if they would be prepared to take them on if necessary.

VIVIEN LIFE

1723

FROM: JILL RUTTER
DATE: 1 July 1986

PS/CST To PS/FST 1/7

PS/FINANCIAL SECRETARY

cc: PS/Chancellor
PS/Economic Secretary
PS/Minister of State
Sir Peter Middleton
Mr Cassell
Mr Monger
Mr M L Williams
Miss Sinclair
Mr Fellgett
Mr Haigh
Mr Romanski
Mr Murray
Mr Dyer
Mr R K C Evans
Mr Satchwell
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PS/IR
Mr Johns - IR

PS/C & E
Mr Fisher - C & E
Mr Graham (Parliamentary Counsel)
The Hon T Sainsbury MP
Mr MacLean (Chief Whip's Office)

FINANCE BILL: REPORT STAGE

The Chief Secretary discussed with the Financial Secretary, the Economic Secretary and the Minister of State the handling of the Report Stage for the Finance Bill. This note records the outcome of that discussion.

2. It was agreed that Report Stage should take place on 8 and 9 July. The estimate of the European Budget would be debated on 10 July.

3. The Economic Secretary would definitely attend on 8 July. His presence on 9 July was more doubtful. It was therefore agreed that it would be preferable, if the Opposition would accept,

for a procedural motion to be agreed to ensure that the amendme on the Woolwich Building Society would be discussed on 8 July.

4. The Chief Secretary would talk to Terry Davies and Dr MacDonald on 1 July to discuss this and other questions on handling.

5. The following allocation was agreed:

(i) New Clauses

- IBA Levy - Mr Shaw
- Stamp Duty/SDRT - Economic Secretary. (It was noted that the amendments would be associated with New Clauses and therefore taken on the same day.)

(ii) Amendments

- Charities - Chief Secretary (Economic Secretary as fallback)
- Personal Equity Plans - Financial Secretary
- Business Expansion Scheme - Financial Secretary
- Company Reconstructions - Financial Secretary
- Pension scheme surpluses - Economic Secretary (Chief Secretary as fallback)
- Capital allowances - Financial Secretary
- Securities - Economic Secretary (Chief Secretary as fallback)
- Stamp Duty - Economic Secretary
- Inheritance Tax - Chief Secretary (Minister of State as fallback)
- Oil taxation - Financial Secretary
- Licensing of tower wagons - Financial Secretary
- Woolwich Building Society - Economic Secretary (to be taken on day 1)

(iii) Opposition New Clauses

- NC1: foreign earnings of seamen and airline employees - Financial Secretary (fallback Minister of State)
- NC2: VAT penalties - Financial Secretary (fallback Minister of State)
- NC3: Workplace nurseries - Financial Secretary
- NC4: Capital allowances - Financial Secretary
- NC5: Luncheon vouchers - Financial Secretary
- NC6: Mitigation of CT liability for industrial and provident societies - Economic Secretary
- NC7: Child tax allowances - Chief Secretary (if not out of order)
- NC8: Relief for expenditure on eligible securities - Chief Secretary
- NC9 and 10: Will be grouped with NC3

(iv) Amendments

- Mortgage interest relief - Chief Secretary
- Employee share scheme - Financial Secretary
- Pension Scheme surpluses - Economic Secretary
- Personal Equity Plans - Financial Secretary

(v) New Clauses tabled in Committee

Of those tabled so far, it was agreed that the Financial Secretary would look after the John Watts clause on self-employment. A new clause tabled by Messrs Favell and Silvester was also allocated to the Financial Secretary.

6. The Chief Secretary has asked that all amendments should be tabled as early as possible this week. All amendments and new clauses must be tabled this week.

7. In order to get the Bill to the Lords in time for consideration by the time the Commons may rise, the Chief Secretary and his Ministerial colleagues will consider on Friday of this week whether to give authorisation for the printing of the Bill with amendments and Government New Clauses to go ahead before

Report Stage discussion.

8. It was agreed that the necessary ways and means resolutions would be taken at the start of Report Stage business.

J RUTTER

011/2768

FROM: JILL RUTTER
DATE: 2 July 1986

PS/FINANCIAL SECRETARY

cc: PS/Chancellor
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Monger
Mr M L Williams
Miss Sinclair
Mr Fellgett
Mr Haigh
Mr Romanski
Mr Murray
Mr Dyer
Mr R K C Evans
Mr Satchwell
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PS/IR
Mr Johns - IR
Mr A Walker - IR
PS/C & E
Mr Fisher - C & E
Mr Graham - OPC
The Hon T Sainsbury MP
Mr MacLean - (Chief Whip's Office)

FINANCE BILL REPORT STAGE

The Chief Secretary, with the Financial Secretary and Mr Sainsbury discussed the Report Stage of the Finance Bill with Terry Davis, Dr Oonagh McDonald and Ron Davies last night. This records their decisions that the Chief Secretary reported from that meeting.

2 The Oppostion were willing to take the Ways and Means Resolutions at the start of business on 8 July as a formality. They would be happy to agree a procedure motion, subject to having the opportunity in advance to look at the proposed business. Decisions therefore on the substance of the procedure motion have been delayed until we have the Opposition's reaction to the Government's amendments and new Clauses.

3 The Chief Secretary discussed with Mr Davis whether letters

along the lines we envisaged would be useful. Mr Davis said that what he needed was the text of amendments as soon as possible. Mr Pegler is organising for Mr Davis to be sent copies of all amendments, new clauses and resolutions to be put down today to be sent as soon as possible to Mr Davis. We will also notify him of amendments to be put down tomorrow.

4 In place of explanatory letters the Chief Secretary has agreed with Mr Davis that Mr Davis should get in touch with this office in the first instance if he requires any further advice or information on any of the specific amendments. We may call on you and other offices to assist where appropriate.

5 The Opposition were prepared to do all the Stamp Duty new clauses and amendments together on day one. The Chief Secretary did not raise the issue of bringing the Woolwich Building Society amendments forward to day one. A decision on whether to do this would be taken in the light of the Opposition's reaction to that amendment.

Jill Rutter

JILL RUTTER
Private Secretary

001/2768

FROM: JILL RUTTER
DATE: 2 July 1986

MR MURRAY

cc: PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Monger
Mr M L Williams
Miss Sinclair
Mr Fellgett
Mr Haigh
Mr Romanski
Mr Dyer
Mr R K C Evans
Mr Satchwell
Mr Ross Goobey
Mr Tyrie

PS/IR
Mr Johns - IR
Mr A Walker - IR

PS/Customs and Excise
Mr Fisher C & E
Mr Graham - OPC
The Hon T Sainsbury MP
Mr MacLean - (Chief Whip's Office)

FINANCE BILL: THIRD READING

I understand from the Chief Secretary that the intention is that there should be a fairly perfunctory Third Reading of the Finance Bill at the end of Report Stage.

2 The Chief Secretary has asked if he could be provided with a suitable speaking note with which to wind up the Finance Bill. Perhaps you could look up the precedents to see exactly what may be required.

Jill Rutter

JILL RUTTER
Private Secretary

Inland Revenue

Policy Division
Somerset House

FROM: G H BUSH
DATE: 3 JULY 1986

Ms Life / Ms Rutter
I gather that this note didn't reach you (but that the attachment did!)
GHB

PS/FINANCIAL SECRETARY (MS LIFE)

FINANCE BILL: REPORT

1. Jill Rutter's minute of 1 July records that capital allowance amendments have been allocated to the Financial Secretary. An advance copy* of the Note on Government Amendments to the agricultural buildings allowance (now Clause 56 and Schedule 15) is attached; the Chief Secretary dealt with this topic in Committee.

(* Final versions have been awaiting a marshalled list which has not yet appeared.)

2. In your note of 1 July to Jill Rutter, you ask that the Chief Secretary be invited to consider dealing with New Clause 12 or New Clause 13. I do not know the outcome but the Minister concerned may want to discuss either or both of these topics in the light of our briefing Notes - they are weighty - which should be with you by now (or very shortly).

3. I am away from the office for the whole of tomorrow but am due to see the Financial Secretary on Monday at 9am on New Clause 4. Perhaps you would let me know before close tonight if he wishes to discuss any of the other topics on Monday morning as well.

G H Bush

cc PS/Chief Secretary (Ms Rutter)
Mr McGivern
Mr Elmer
PS/IR
Mr Bush

Inland Revenue

Policy Division
Somerset House

FROM: G H BUSH
DATE: 3 JULY 1986

Ms Life / Ms Rutter
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GHB

PS/FINANCIAL SECRETARY (MS LIFE)

FINANCE BILL: REPORT

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G H Bush

cc PS/Chief Secretary (Ms Rutter)
Mr McGivern
Mr Elmer
PS/IR
Mr Bush

** TOTAL PAGE.02 **

008/2767

PUP

FROM: JILL RUTTER
DATE: 7 July 1986

PS/FINANCIAL SECRETARY

cc:

PS/Chancellor
PS/Economic Secretary
PS/Minister of State
Mr Monger
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Dyer
Mr R K C Evans
Mt Satchwell
Mr Murrary
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PS/IR
Mr Walker - IR
PS/Customs & Excise
Mr Bone - Customs & Excise
Mr Graham (OPC)
The Hon T Sainsbury
Mr MacLean,(Chief Whip's Office)

C/ A couple of points you may like to note :-

1. Proceedings will start with PEPs
2 Opposition only propose to divide House on NC 2+4 + PEPs.

CR 7/7

FINANCE BILL: ARRANGEMENTS FOR REPORT STAGE BUSINESS

The Chief Secretary discussed with Ministerial colleagues earlier today, subsequently with Mr T Davis. This note reflects the outcome of those discussions.

2 Mr Graham has tabled the procedure motion for tomorrow setting out business. At the request of the Opposition tomorrow's proceedings will start with Clause 39 and Schedule 8 (Personal Equity Plans). The business will then proceed as follows, based on the provisional selection of amendments:

(1) New Clause 2 - VAT penalties - Financial Secretary

(2) New Clause 4 - Capital allowances - disabled - Financial Secretary.

3 The Opposition have informed us that they only propose to divide the House on these two New Clauses, and the Personal Equity Plan amendments. Business will then proceed as follows:

New Clause 11 - Self-employment - Financial Secretary

New Clause 14 - Employment bonds - Economic Secretary

New Clause 19 - Bingo duty - Chief Secretary

New Clause 21 - Luncheon vouchers - Financial Secretary

New Clause 22 - Board and Lodging allowances - Financial Secretary

New Clause 24 - Oil tax - Financial Secretary

4 That will close proceedings tomorrow. Business on Thursday, 17 July, subject to any further new clauses tabled will be as follows:-*

New Clause 18 and New Schedule 29 - IBA levy - Mr Shaw

New Clauses 26 - 30 plus amendments - Stamp Duty - Economic Secretary

Clause 2 - Oil duties - Economic Secretary

Clause 16 - Income tax - Chief Secretary (although he may wish to ask the Financial Secretary to take this on)

Clause 23 - Employees' share schemes - Financial Secretary

Clause 25 - Share option schemes - Financial Secretary

Clause 27 - 33 - Charities - (Economic Secretary, with Chief Secretary taking provisions relating to the former Clause 29).

Clause 47 - Composite rate regulation - Economic Secretary

Clause 56 - Agriculture Buildings Allowance - Chief Secretary

* Schedules will be attached to appropriate clauses, as in Procedure motion (attached)

Clause 96 - 99 Inheritance tax - Economic Secretary

Clause 104 - Light gases - Financial Secretary

Schedule 2 Tower wagons - Financial Secretary

Schedule 7 - Charities - Economic Secretary

Schedule 9 - BES - Financial Secretary

Schedule 10 - Company reconstructions - Financial Secretary

Schedule 12 - Pension scheme surpluses - Economic Secretary

Schedule 13 - MOWA - Financial Secretary

Schedule 15 - ABA - Chief Secretary

Schedule 17 - Securities - Economic Secretary

Schedule 19 and 20 - Inheritance tax - Economic Secretary

Schedule 21 - Oil tax - Financial Secretary

Schedule 22 - Repeals

5 The Opposition have said that they will not wish to vote on Thursday 17 July. They will have only a One Line Whip.

6 This line may of course change if anything else is put down subsequently.

7 I understand from the Public Bill Office that all Government amendments must be tabled by Wednesday if we are to meet the timetable for Lords consideration of the Finance Bill. Could Mr Graham and PS/Inland Revenue please note.

8 We will arrange any swops as necessary for 17 July. We will also re-arrange the business if there is any likelihood that the Minister of State may be in the country at the time.

JILL RUTTER
Private Secretary

17/9

DRAFT

CONSIDERATION OF BILL

FINANCE BILL, AS AMENDED

Mr Chancellor of the Exchequer

To move, That the Finance Bill, as amended, be considered in the following order, namely, Amendments relating to Clause 39 and Schedule 8, new Clauses 2 to 17, new Clauses 19 to 25, new Clause 18, Amendment 29, new Clauses 26 to 30, (Amdts relating to 64 - 94) Amendments relating to Clauses 1 to 3, Schedules 1 and 2, Clauses 4 and 5, Schedule 3, Clause 6, Schedule 4, Clauses 7 and 8, Schedule 5, Clause 9, Schedule 6, Clauses 10 to 31, Schedule 7, Clauses 32 to 38, Clause 40, Schedule 9, Clauses 41 and 42, Schedule 10, Clauses 43 and 44, Schedule 11, Clauses 45 and 46, Schedule 12, Clauses 47 to 55, Schedules 13 and 14, Clause 56, Schedule 15, Clause 57, Schedule 16, Clauses 58 to 62, Schedule 17, Clause 63, Schedule 18, ~~Clauses 64 to 96~~ Clauses 95 and 96, Schedule 19, Clause 97, Schedule 20, Clauses 98 to 104, Schedule 21, Clauses 105 to 108 and Schedule 22.

010/2767

1. Today
2. ? Prayers (Wednesday)

FROM: S I M KOSKY
DATE: 11 July 1986

KOSKY → PS/FST 11/7

PS/FINANCIAL SECRETARY

cc: PS/Chancellor
PS/Economic Secretary
PS/ Minister of State
Mr Monger
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Dyer
Mr R K C Evans
Mr Satchwell
Mr Murray
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PS/IR
Mr Walker - IR
PS/Customs & Excise
Mr Bone - Customs & Excise
Mr Graham (OPC)
The Hon T Sainsbury
Mr MacLean (Chief Whip's Office)

FINANCE BILL: ARRANGEMENTS FOR BUDGET STAGE BUSINESS

Further to Miss Rutter's minute of 7 July, New Clauses have been allocated as follows for business on Thursday, 17 July.

New Clause 18 and New Schedule 29 - IBA levy - Mr Shaw

New Clauses 26 - 30 plus amendments - Stamp Duty - Economic Secretary

Clause 2 - Oil duties - Minister of State

Clause 16 - Income tax - Higher Rate - Financial Secretary

Clause 19 Mortgage Interest Relief - Financial Secretary

Caluse 23 - Employees' share schemes - Financial Secretary

Clause 25 - Share option schemes - Financial Secretary

Clause 27 - 33 - Charities - (Economic Secretary, with Chief Secretary taking provision relating to the former Clause 29).

Clause 47 - Composite rate regulation - Economic Secretary

Clause 56 - Agriculture Buildings Allowance - Chief Secretary

Clause 96 - 99 Inheritance tax - Minister of State

Clause 104 - Light gases - Financial Secretary

Schedule 2 Tower wagons - Minister of State

Schedule 7 - Charities - Economic Secretary

Schedule 9 - BES - Financial Secretary

Schedule 10 - Company reconstructions - Financial Secretary

Schedule 12 - Pension scheme surpluses - Economic Secretary

Schedule 13 - MOWA - Financial Secretary

Schedule 15 - ABA - Chief Secretary

Schedule 17 - Securitities - Economic Secretary

Schedule 19 and 20 - Inheritance tax - Economic Secretary

Schedule 21 - Oil tax - Financial Secretary

Schedule 22 - Repeals

New Clause 31 - Taxation of Trade Union Provident Benefits - Minister of State

New Clause 32 - Stamp Duty Economic Secretary

S I M KOSKY

FINANCE BILL: BUDGET STAGE BUSINESS

010/2767

Prayers folde

PUSH

KOSKY → PS/FST 14/7

FROM: S I M KOSKY
DATE: **14 July 1986**

PS/FINANCIAL SECRETARY

cc: PS/Chancellor
PS/Economic Secretary
PS/ Minister of State
Mr Monger
Miss Sinclair
Mr Haigh
Mr Romanski
Mr Dyer
Mr R K C Evans
Mr Satchwell
Mr Murray
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PS/IR
Mr Walker - IR
PS/Customs & Excise
Mr Bone - Customs & Excise
Mr Graham (OPC)
The Hon T Sainsbury
Mr MacLean (Chief Whip's Office)

FINANCE BILL: ARRANGEMENTS FOR BUDGET STAGE BUSINESS

Further to my minute of 11 July it should be noted that Schedule 19 and 20 - Inheritance Tax is to be dealt with by the Minister of State.

Sheldon Kosky

S I M KOSKY

3102/23

12/2

FROM: A B MURRAY
DATE: 15 JULY 1986

28

One small change at front. BIS/7

1. MISS SINCLAIR

2. PS/CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Cassell
Mr Monger
Mr Scholar
Mr Haigh
Mr Romanski
Mr Dyer
Mr R K C Evans
Mr Satchwell
Mr Cropper
Mr Ross Goobey
Mr Tyrie

PS/IR
Mr Johns - IR

PS/C&E
Mr Fisher - C&E

FINANCE BILL: THIRD READING, 17 JULY

Thank you for your minute of 2 July. I attach a draft speaking note for the Chief Secretary to use on Thursday. He may also like to see the attached copy of Mr Rees' equivalent speech last year, as an indication of past form.

A B MURRAY

651/027

FINANCE BILL : THIRD READING

DRAFT SPEAKING NOTES FOR CHIEF SECRETARY

I beg to move, That the Bill be now read the Third time.

2. As I indicated at the start of our Second Reading debate, over two months ago, this Bill continues the Government's progress in reducing the burden of taxation, and ~~in the~~ reforming ~~of~~ the tax system, despite the constraint of an unprecedented fall in oil revenues. This achievement demonstrates the underlying resilience of the economy, and the limited extent to which we now need to rely on the North Sea sector.

3. The main tax reduction in the Bill is the cut in the basic rate to 29 pence, the first such reduction since 1979. This improves incentives for over 20 million people of working age, and is a further step towards the long-term objective of a basic rate of no more than 25 per cent to which my RHF the Chancellor referred at the end of his Budget speech. The higher rate threshold changes have been structured in such a way that the benefit of this year's basic rate cut is concentrated around the middle of the income distribution. These are the people who have had proportionately the smallest reduction in their tax bills since 1979.

4. The Bill incorporates a number of other important tax measures: the introduction of Personal Equity Plans; the restructuring of stamp duty; and the introduction of ~~the most~~ a highly generous ~~ever~~ package of reliefs to encourage charitable giving. The change from Capital Transfer Tax to Inheritance Tax, with abolition of the immediate tax charge on lifetime gifts between individuals, ~~will continue the process of discarding useless taxes.~~

5. At Committee Stage we made orderly and constructive progress in scrutinising the details of the Bill. I am grateful to members of the Committee on both sides for their many helpful contributions to our debates, as a result of which the Bill has emerged from Committee even better than it was when it went in.

6. Perhaps the most important of the several major improvements to the Bill made in Committee concerned the provisions to deal with the abuse of charity tax relief by an unscrupulous minority of charities. As the House will recall, some entirely

Told Paul Pegler

AWK 16/7

reputable charities expressed concern - as did many of my hon Friends, and hon Members - that our original proposals went too far, and could have had adverse effects on bona fide charities. In the light of these comments and intensive discussions with representatives of the charity world, we made substantial changes to these provisions which were widely welcomed.

7. We also made significant amendments to the stamp duty provisions during Committee and at Report. Again, these reflected the representations we received after the Budget announcement, and the further consultations we were then able to undertake, in contrast to the pre-Budget period, when, for obvious reasons, consultation was impractical.

8. The Government also introduced some important new additions to the Bill after Second Reading. In particular, provisions were introduced in Committee to withhold tax at source from overseas entertainers and sportsmen, to plug a loophole whose scale had only become apparent late in 1985. We also introduced provisions on double taxation relief in relation to advance corporation tax, to deal with a point which arose in a court case delivered in March.

9. Finally, at Report stage, we made a number of further changes, notably in response to points raised in Committee by my hon Friends and hon Members - for instance on the BES.

10. ~~This is a most worthwhile Bill which~~ The Bill reflects the Government's objectives in the field of taxation. It was thoroughly worthwhile in its original form. It has benefited from ~~its thorough~~ careful and constructive consideration by the House. I therefore commend it to the House.

'In Schedule 7, paragraph 2(2) and in the Table in paragraph 9, the second entry relating to section 58(12) of the Finance (No. 2) Act 1975.'.

No. 116, in line 6, column 3, at beginning insert—

'In section 58, in subsection (5) the words from "including" to "gains" and subsection (6)'.

No. 117, in column 3, leave out lines 14 and 15 and insert—

'In section 88, in subsection (1) the words "and section 89 below" and "section 89 below", paragraph *(b)* and the word "and" immediately preceding it; and subsection (5A). Section 89.'.

No. 118, in line 32, at end insert—

'1984 c. 43.	The Finance Act 1984.	In Schedule 9, in paragraph 11 (1) the words "and 89".
		In Schedule 13, paragraph 4 and paragraph 9*(b)* and the word "and" immediately preceding it.'.

No. 119, in line 34, at beginning insert—

'The repeals in section 270 of the Income and Corporation Taxes Act 1970, section 58 of the Finance (No. 2) Act 1975, sections 65 to 70 and 84 of and Schedule 7 to the Capital Gains Tax Act 1979, section 41 of the Finance Act 1981, section 58 of the Finance Act 1982 and Schedule 13 to the Finance Act 1984 have effect with respect to disposals on or after 2nd July 1986.'.

No. 120, in line 39, leave out from '1983' to 'have' in line 40 and insert

'the Finance (No. 2) Act 1983 and Schedule 9 to the Finance Act 1984.'.

No. 121, in line 42, after 'Act', insert

'(other than those mentioned in paragraph *(bb)* below)'.

No. 122, in line 43, at end insert—

'*(bb)* in the case of gilt-edged securities as defined in Schedule 2 to the Capital Gains Tax Act 1979 and qualifying corporate bonds as defined in section 64 of the Finance Act 1984, with respect to disposals on or after 2nd July 1986, and'.—*[Mr. Peter Rees.]*

12.46 am

Mr. Peter Rees: I beg to move, That the Bill be now read the Third time.

This is the final stage of a long and intricate legislative process. I ventured to say at the beginning of the debate on Second Reading that it was a good Bill but I am ready to admit that it has been improved in Committee and on Report. There have been valuationable contributions from Government and Opposition Members in Committee and on the Floor of the House.

The Bill may not have quite the same dramatic impact as last year "s Finance Bill and it has not had the same dramatic passage through the House. However, the Bill has been considered in Committee rather better than last year's Finance Bill. It has one inestimable quality, which I am sure will command the approbation of the entire House. Although it amounts to 98 clauses and 27 schedules the repeals in schedule 25 remove many measures from the statute book and we are not making a net addition to the statute book.

More significantly, the Bill sustains the momentum of fiscal reform. The abolition of development land tax did not entirely command the approbation of the hon. Member for Birmingham, Hodge Hill (Mr. Davis) but it is one of the features of the Bill. Other features are the indexation provisions for capital gains tax, the exclusion of gilts and certain corporate bonds from capital gains tax, which goes far to simplify an unduly complex tax, the simplification and modernisation of many of the stamp duty provisions and the unitary tax measures, which were debated in the early hours of yesterday morning and for which we are indebted to my hon. Friend the Member for Surrey, North-West (Mr. Grylls) and other of my right hon. and hon. Friends. I am sure that that measure will make a valuation contribution to the development of thought on both sides of the Atlantic on that complex issue.

Finally, I turn to the recommendation of the Keith committee on the administration of indirect taxes. I paid a tribute, which I shall not repeat, on Second Reading to the labours of that committee. It has produced a thoroughly painstaking and admirable piece of work. The fact that we have adopted more or less most of the recommendations in legislative form is eloquent testimony of our regard for the committee's work. I am sure that it will improve the administration of the taxes for which Customs and Excise is responsible while maintaining a fair balance between the interests of the administration and those of the taxpayer.

The provisions were inevitably long and complex and they have been properly subjected to close scrutiny in Standing Committee and on Report. It can be claimed that it was quite a feat that the recommendations of the Keith committee should have been implemented in legislative form within two and a half years of the first report, especially when it is borne in mind that there have been extensive consultations and the publication of draft clauses. That is indeed the way that this Administration likes to proceed in complex legislative fields. I also remind the House that it should be the prelude to further provisions next year in regard to direct taxation.

I assure the House and the country that the Government have not lost their appetite for tax reform. As further evidence of that, we shall be publishing in due course a Green Paper on personal allowances and other related subjects.

It was, I believe, a well-conceived, well-constructed, well-criticised and well-considered Bill. It has been improved by our various debates. On that basis, I have no hesitation in commending it to the whole House.

12.50 am

Mr. Terry Davis: The Chief Secretary will not be surprised to learn that we take a different view of the Bill. I think that his reference to the Bill as having been well criticised was intended as some sort of compliment. I see that he is nodding, so I take it as such. We are critical of the Bill in its overall strategy and also in its detailed provisions.

Whereas the Chief Secretary, understandably, regards the abolition of development land tax, at a cost of £50 million to the Exchequer, as a good thing, we regard it as something to be criticised. Similarly, we were and still are critical of the changes in capital gains tax, and of a measure tht I think the Chief Secretary overlooked in his contribution a few moments ago. He did not refer to the extension of VAT to newspaper advertisements—I am

PUP

FROM: A B MURRAY
DATE: 16 July 1986

PS/CHIEF SECRETARY

cc PS/Chancellor
PS/FST
PS/EST
PS/MST
PS/Sir P Middleton
Mr Cassell
Mr Monger
Miss Sinclair
Mr Dyer
Mr R K C Evans
Mr Walker, IR
Mr Bone, C&E

FINANCE BILL HANDLING: LETTER OF 16 JULY FROM SIR B RHYS WILLIAMS

The Chief Secretary has asked for urgent advice on this letter. I apologise for the manuscript.

Sir B Rhys Williams complains about the large number of Government amendments (just over 190) tabled for the final day of Report tomorrow, and claims it will be impossible for the House to consider them properly. He alleges that this

state of affairs has arisen because officials "hold the House of Commons in contempt".

Sir Brandon also complains that even if many of the amendments are technical this merely reflects the defective nature of the original Bill, which he claims was "little better than a draft". He suggests that the position is a reflection of the 'steady erosion of the status of Members by the conduct of senior officials". He has apparently already complained to the Leader of the House, and asked for an interview with the Speaker.

I attach a draft reply to the MP, which rejects his more extreme allegations, and attempts to explain why there are in fact so many amendments.

In case Sir Brandon or any other MP raises these or similar issues as points of order at the start of tomorrow's proceedings, PS/FST may wish to ensure that the Financial Secretary has to hand a copy of my general defensive brief dated 7 July.

A B MURRAY.

DRAFT REPLY TO

Sir Brandon Rhys Williams, MP
House of Commons
London
SW1A 0AA

July 1987

Thank you for your letter of 16 July about the Government's handling of business for Report Stage of the Finance Bill.

I do appreciate that there are an apparently alarming number of Government amendments down for the last day of Report. But I cannot possibly accept your suggestion that this is the result of officials somehow trying to subvert or diminish the powers and responsibilities of the House.

As you well know, tax legislation is immensely complex, and, especially given the speed with which the Finance Bill must be prepared each year, and the impracticability of consultation before the Budget, changes at a later stage are inevitable. There were, for

instance, some 140 Government amendments down for the final day of Report of the winter 1974/75 Finance Bill.

Returning to this year's Bill, the number of Government amendments at Report is really not a good guide to the amount of business which they represent. Most will be grouped with others, so that the number of points requiring separate debate will be far less than the total number of amendments. And the majority deal with minor technical issues which make no substantive difference to the policies which the House has considered and discussed in the Bill's earlier stages.

Other amendments for Report deal with points which were raised in Committee, for instance on the charity and Business Expansion Scheme provisions. And still others respond to points raised by interested bodies and individuals outside Parliament, who do not just - as you rightly point out - carefully consider the text

the original Bill, but who also often make worthwhile suggestions for improving it.

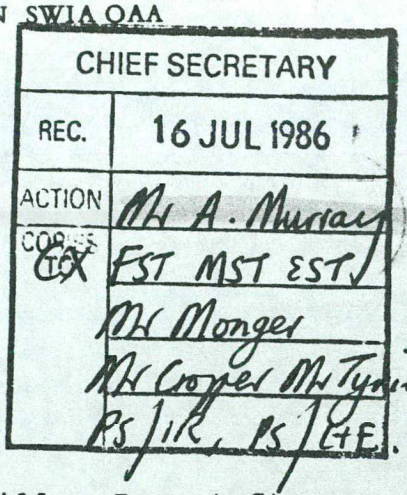
There are in fact only two totally new proposals which the Government has tabled for the second day of Report, dealing with the IBA levy, and with vehicle excise duty on certain tower wagons.

In short, I consider that the amount of Government business for Report is, in terms of substance, entirely reasonable, even if its volume is large. I am therefore confident that the House will be able to deal properly with all the planned business within the time available.

JOHN MacGREGOR

From: Sir Brandon Rhys Williams, M.P.

HOUSE OF COMMONS
LONDON SW1A 0AA



16 July 1986

Rt Hon John MacGregor OBE MP
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear John,

Finance Bill - Report Stage

I am writing to register a very strong protest about the number of amendments to the Finance Bill which have been set down for debate on Report in the name of the Chancellor of the Exchequer. The Vote Office this morning supplied members with the marshalled list, from which it can be seen that the House is to be asked to assent to more than 190 further amendments from your Department on the last day of the debate. I understand that the number of amendments or groups of amendments set down by opposition and back-bench members which are in order for selection on the same day is only about a dozen. The House is expected to discharge all this business on Thursday, and still to leave time for other matters. It is inevitable that the pressure of time will make it difficult - if not impossible - for members to make worthwhile contributions on subjects they consider of importance; and the significance of the greater part of the official amendments will not be examined at all. This is not the way that the House should be treated even on minor matters. That your Department should approach the consideration of the Finance Bill with so little regard for the views that members may take is disgraceful. The Budget is, after all, one of the major measures of the Parliamentary session.

I have made known my objection to the Leader of the House and I have also asked for an interview with the Speaker to draw his attention to the matter. I may say that other members are just as concerned as myself.

Having served on the Standing Committee on the Bill I would like to say that in my observation the origin of the problem does not lie at all in the attitude of the Treasury ministers, who have shown themselves to be very receptive to the views of members on both sides of the House. I am forced to the reluctant conclusion, however, that your officials have come to hold the House of Commons in contempt. Their attitude is betrayed by the way in which they have prepared for the debates on this year's budget.

I recall your saying that many of the amendments which you have tabled for Report are purely technical. That does not make the situation very much better: it simply implies that insufficient trouble was taken to prepare the text which was published for Second Reading. Bearing in mind the degree of study which is given to the precise wording of the Finance Bill by professional and business people all over the country, besides innumerable private citizens who are concerned to see what effect it may have on their interests, (not to emphasise the work that also ought to be done on the text by MPs), it is inexcusably careless to produce a Bill which is little better than a draft. In so far as your Department's amendments may make a substantial difference to the interpretation, however, I fail to see how a single day's debate can possibly give sufficient scope for proper explanations and the expression of members' opinions on such a large number of textual changes and new proposals.

In our recent debates on procedural changes in the EEC, a number of members have shown their anxiety that powers are being taken from the House of Commons, in connection particularly with taxation and expenditure, which over the centuries the House has fought for and won, and which are a feature of our constitution. In my opinion the danger to the House is much closer: it lies in the steady erosion of the status of members by the conduct of senior officials in relation to our exercise of our authority and discretion in dealing with proposals for legislation.

I should like to say that I think you should not be surprised if members on both sides of the House are increasingly disposed to take a stand to reverse this process. My hope is that ministers will understand, and co-operate.

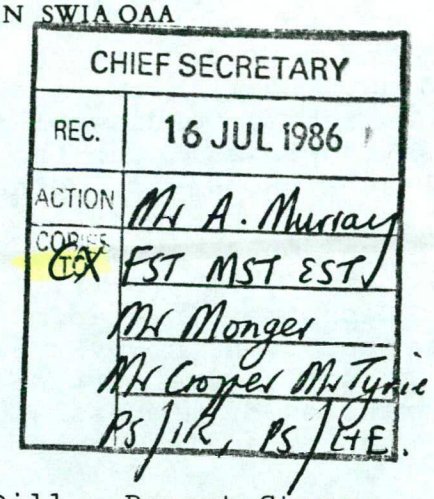
Yours ever

Brandon.

From: Sir Brandon Rhys Williams, M.P.

8

HOUSE OF COMMONS
LONDON SW1A 0AA



16 July 1986

Rt Hon John MacGregor OBE MP
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

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I should like to say that I think you should not be surprised if members on both sides of the House are increasingly disposed to take a stand to reverse this process. My hope is that ministers will understand, and co-operate.

Yours ever

Brandon.

Budget 1986

FINANCE

BILL

PTA

316/007

PUP

FROM: A B MURRAY
DATE: 22 July 1986

1. PS/CHANCELLOR
2. PARLIAMENTARY (MR BERWICK)

cc PS/CST
PS/FST
PS/EST
PS/MST
Mr Monger
Mr Scholar
Mr Shaw
Mr Haigh
Mr Romanski
Mr Hacche
Mr R K C Evans
Mr Walker, IR
Mr Bone, C&E

[Miss O'Mara / Mr Gilhooly]

C/ content with this material that has been prepared for Lord Young? The original draft (which you haven't seen) has been extensively revised in the light of Margaret O'Mara's comments

OK CR 23/7

FINANCE BILL: HOUSE OF LORDS STAGES 25 JULY BRIEFING FOR LORD YOUNG

Mr Berwick's minute to me of 11 July asked me to provide opening and closing speeches for Lord Young, cleared with the Chancellor and EB, and for background briefing.

2. I attach a draft set of material for Lord Young. The opening speech has already been seen by EB, [and extensively revised in the light of their comments.] As the draft covering letter explains, it is impossible to provide a closing speech since this generally deals only with whatever points have been raised in the debate.

3. I would be grateful if PS/Chancellor could establish whether the Chancellor is content with this material, and if so to forward it to Parliamentary for despatch to Lord Young's office tomorrow.

Andrew

A B MURRAY

PS. The attachments to Annex G – the press releases on the 'Taxpayer's Charter' will follow tomorrow, as soon as they are ready.

3316/001

DRAFT LETTER TO

Ian McKinnon Esq
PS/Lord Young
Department of Employment
Caxton House
LONDON
SW1

July 1986

FINANCE BILL: HOUSE OF LORDS SECOND READING

I attach briefing for Lord Young, as follows:

- Annex A: draft opening speech;

- Annex B: defensive speaking notes on the overall tax burden;

- Annex C: defensive speaking notes on the case for tax cuts versus infrastructure/public spending;

- Annex D: defensive speaking notes on whether tax cuts only help the rich;

- Annex E: defensive speaking notes, and factual note on initial responses, on profit-related pay (Green Paper was published on 15 July : Lord Young will already have the more detailed Q and A briefing prepared for Ministers than factual and defensive

- Annex F: briefing on personal equity plans (the Chancellor is holding a press conference on this on 24 July);

- Annex G: briefing on the "Taxpayer's Charter" which the Revenue Departments are launching at 11.00 am on 25 July; and

- Annex H: a draft peroration for Lord Young's closing speech.

2. We have not attempted to draft a full closing speech, since the normal practice is to do no more than respond

to specific points raised by Lords in the debate. Treasury and Revenue officials will be on hand in the box to produce any additional speaking notes that may be required. However, Lord Young may find it helpful to have to hand a copy of the latest Treasury Weekly Brief (dated 21 July), which covers most likely topics. I understand that Andrew Murray here has agreed with you that your Department would provide Lord Young with any briefing he may require on areas within his own responsibility.

3. If Lord Young would like to look at the Hansards of previous Lords debates on the Finance Bill, the references for the last two years are:

1984: Wednesday 25 July (Vol 455, No 165), cols 295-308 and 314-335.

1985: Tuesday 23 July (Vol 466, No 134), cols 1098-1120 and 1130-1159.

4. Finally, I can confirm that Gwyn Hacche and Andrew Murray from Treasury and Andrew Walker from Inland Revenue will be available to brief Lord Young at 3.30 pm on Thursday in his office at Caxton House, and on Friday in the box at the House.

[R C BERWICK]

3320/001

ANNEX A

FINANCE BILL: HOUSE OF LORDS SECOND READING

My Lords, I beg to move that this Bill be read a second time.

2. The Bill will implement the tax changes announced by my Rt Hon Friend the Chancellor of the Exchequer in his Budget Speech four months ago. That Budget was set against the background of a substantial drop in oil prices, and hence in North Sea tax revenues. Expectations of what the Budget would contain were inevitably depressed.

3. But as the Chancellor emphasised in his speech, such expectations underestimated the underlying strength of the British economy, and over-emphasised the extent to which we are dependent on the North Sea. This strength is in no small part due to the success of our policies of sound money and free markets, which remain the cornerstones of the Government's economic strategy.

4. The results are clear. The economy is now in its sixth year of growth - a broadly-based growth which owes more to rising investment - up, on average, by 5 per cent a year over the current upswing - and exports, than to higher consumption. Meanwhile, we have brought inflation down to just 2½ per cent - the lowest for almost 20 years - and the public sector borrowing requirement down to just 1¾ per cent of GDP - the lowest proportion since 1971-72. So although the oil price has now fallen to one-third of its level last autumn, our foreign exchange reserves have risen by well over $1 billion since the turn of the year.

5. Unemployment, of course, remains a most serious blot on this otherwise impressive record. Since 1983, the economy has created over a million new jobs, but unemployment has continued to rise, as the growth of jobs has been outstripped by the even more rapid rise of the labour force. Over the

next few years, the growth in the labour force should ease off, but the economy still needs to generate new jobs at a faster rate if we are to make a major dent in the unemployment total. The key to this is in the hands of management. We simply cannot afford to pay our workers increases of around 6 per cent when our US competitors are paying only 2 per cent, the Japanese only 1 per cent, and the Germans nothing at all. The fall in the inflation rate to 2½ per cent means we now have a golden opportunity to reduce the level of pay settlements in this country without imposing a corresponding cut in living standards. Indeed, as a result of the Budget reduction in the basic rate of income tax, it now takes a pay increase of only ½ per cent to compensate workers for rising prices over the last year.

6. The responsibility for the current level of pay settlements lies squarely with employers. The Government believes that there needs to be greater flexibility in our antiquated structure of pay bargaining. Noble Lords will recall that the Chancellor announced in his Budget the Government's support for the concept of profit-related pay as a means of improving pay flexibility. A possible scheme of tax relief for PRP was described in a Green Paper presented to Parliament last week jointly by the Chancellor, the Secretary of State for Trade and Industry and myself, which emphasised the advantages of profit-related pay.

7. Greater adoption of PRP arrangements would help to break down the "them and us" barrier which has bedevilled British industry for years. And making the pay of employees more responsive to the profits of the business in which they work should encourage employers to take on more labour, knowing they will be under less pressure to lay off workers when business is slack. The Green Paper makes clear that while the Government is in no doubt as to the merits of PRP, it has not yet decided whether tax relief should be given.

8. More immediately, the Chancellor also announced in his Budget the substantial extra sums we shall be spending on employment measures - almost £200 million this year, and nearly

half as much again next. We are expanding the Community Programme to 255,000 places this year and developing a nationwide Restart programme. Under this scheme we will offer every one of the long-term unemployed help towards finding a job. Self-employment is growing particularly rapidly - by nearly ½ million since the last election - and this is a trend we, as a Government, have deliberately encouraged. Those who go into business on their own account today include the large employers of tomorrow. So we have given particular emphasis to the expansion of the Enterprise Allowance scheme. Three out of five of those taking advantage of the full 12 month Allowance are still trading 3 years after setting up in business. And on average each of these firms has in addition created another new job.

9. Unemployment among the young is an especial scourge. So we are not only spending over £900 million this year alone on the Youth Training Scheme, but we have also introduced from April the New Workers Scheme, providing for a full year a £15 a week allowance to employers of low paid young workers in their first job.

10. But a debate on the Finance Bill must, above all, focus on the tax measures in last March's Budget. Despite the problems of oil, the strength of the rest of the economy led us to forecast buoyant non-oil revenues, with a considerable increase in corporation tax receipts, following the 20 per cent increase in company incomes between 1984 and 1985. So the Chancellor was able, within a prudent Budget, to further the Government's objective of reducing the burden of taxation, and to propose a substantial range of reforms and improvements to the tax system. It is these changes to which I now turn.

11. The 1p reduction in the basic rate of tax accounts for by far the largest part of the £1 billion net tax reduction in the Budget. The taxpayer now keeps more of every additional pound he or she earns - a stimulus to motivation, initiative

and enterprise. One penny off the basic rate looks modest. But coming on top of the 3p reduction in 1979, it represents a further significant step towards our objective of a rate no higher than 25 per cent.

12. The reduction in the burden of income tax, whether by cutting tax rates or raising personal allowances, is a prime objective of Government policy. The case for reducing the tax rate this year, rather than ~~making a further real increase in allowances - which are already~~ again increasing allowances beyond indexation - our allowances are now some 22 per cent higher than in 1979 - is strengthened by comparison with our overseas competitors. Our tax allowances are now around the middle of the range for the major developed countries, but our starting rate of tax was, at 30 per cent before the Budget, well out of line, especially compared with rates of 15 per cent or less in the US and Japan. The reduction to 29 per cent is an earnest of our determination to ~~rectify that anomaly.~~ bring the UK more into line.

13. Taxes on spending were as a whole increased only in line with inflation. However, I should point out that, while duty on road fuel was increased by slightly more than inflation, the effects on the pump price were more than offset by the dramatic fall in crude oil costs. And as there was no increase in vehicle excise duty on most vehicles, the overall burden of duty on the motorist remained unchanged in real terms.

14. For businesses, this year has seen the completion of the reforms announced by the Chancellor in 1984, with the main corporation tax rate now down to 35 per cent, lower than any of our major industrial competitors. Meanwhile non-North Sea company profitability reached a post-1973 high of 8 per cent last year, and the Government forecasts it will rise to over 9 per cent this year as costs - of which oil is the most obvious example - fall.

15. However, while we do not envisage any further major changes in the business tax structure, the Bill does include two essentially tidying-up business tax measures. These bring mines and oil wells allowances more into line with the new

system of capital allowances, and provide for a full measure of depreciation for short-lived agricultural buildings and works. And the Bill also cuts the small firms' rate of corporation tax to 29 per cent, in line with the new income tax basic rate.

16. But the Bill does contain a number of radical measures. I would highlight especially those which encourage enterprise and investment. The abolition of the tax on lifetime gifts between individuals, and the reform of the remaining elements of capital transfer tax as inheritance tax, will be a direct benefit to the very many family businesses which are such an important part of our economy. The introduction of the Personal Equity Plan from next January will provide new incentives, particularly for the smaller saver, to invest up to £200 a month in quoted UK companies, sustaining the expansion of personal share ownership, which has grown so rapidly since 1979. Recent surveys indicate that the proportion of individual shareholders has doubled over the period. So we are already off to a good start towards our aim of making Britain a nation of share-owners, as well as house-owners.

17. The cut in the rate of stamp duty on share transactions to ½ per cent from the date of the Stock Exchange's 'Big Bang' this autumn will also help investors. And it will also help London to continue to compete successfully in the ever more competitive worldwide securities market.

18. There is, of course, a great deal more still than this in the Bill, but I would like to draw the House's attention to just one more area - charities. The Bill gives effect to the highly generous range of new reliefs for charitable giving which the Chancellor announced in his Budget. These will allow non-close companies to obtain relief for single gifts up to 3 per cent of their ordinary dividend payments. Individuals will no longer be limited in the higher rate relief they can obtain on covenanted donations. And we have introduced an entirely new relief to encourage payroll giving schemes. Where an employer decides to participate - and I hope many will do

so - employees will be able to get tax relief on charitable donations, up to £100 a year, which are deducted from their pay. The scheme will start next April.

19. The cost of these new reliefs will naturally depend on how generously the public respond to them. We estimated that the cost to the Exchequer could be £60 million in 1987-88. But that is not intended as an upper limit, and if the new reliefs stimulate more donations than we have anticipated, we will be only too pleased.

20 ~~19~~. Side by side with the new reliefs, it was necessary to take action to deal with the abuse of charity tax relief by an unscrupulous minority of charities. Noble Lords will no doubt recollect, however, that a number of entirely reputable charities expressed their concern that our original proposals went too far, and could have resulted in problems for bona fide charities. So, in the light of discussions with representatives of the charity world, the provisions in the Bill were substantially revised during the course of its passage through the other place. These changes were widely welcomed as a response to the criticisms which had been made.

21 ~~20~~. To sum up, the measures in the Bill continue the process of tax reduction and reform to which we are committed. Only in this way will we be able to create the right conditions for enterprise and initiative to thrive, to the benefit of us all. I therefore commend the Bill to the House.

DEFENSIVE NOTE ANNEX B

THE OVERALL TAX BURDEN

(Some Noble Lords have pointed out) that the overall burden of tax has risen since 1979. They are quite correct. However the increase took place between 1978-79 and 1981-82, when we needed urgently to reduce the excessive PSBR we inherited in 1979, and thereby to help bring inflation under control. Since 1981 the burden has begun to decline. Further falls are in prospect, providing we can keep public expenditure under firm control.

2. I should also emphasise that there have been some important shifts within the total tax burden. Despite the fall in oil revenue this year, about a third of the increase in tax as a proportion of GDP is accounted for by North Sea tax. Much of the rest represents increased tax on expenditure. This reflects the change we have made away from direct taxes to indirect taxes, in order to give people greater freedom of choice. Income tax is now £8 billion lower than it would have been had we merely indexed the rates and allowances of 1979, giving a major stimulus to enterprise and effort.

DEFENSIVE NOTE

ANNEX C

TAX CUTS VERSUS INFRASTRUCTURE (AND PUBLIC) SPENDING

(Some Noble Lords have urged) the Government to use any fiscal leeway available to increase public spending on additional infrastructure projects rather than to cut taxes. They claim that this will create more jobs. Obviously, spending money to increase public sector employment will create jobs in the short-run. But the demand effect is not the point. There is no shortage of demand in the economy and the evidence is that the short-term jobs created by additional public spending are eroded over time.

2. The crucial point is to use the fiscal leeway to improve supply-side performance. In the long-run better economic performance is the only way to create lasting jobs. Some infrastructure projects help the supply-side. But the Government is not neglecting the infrastructure. Public sector capital expenditure is running at over £21 billion per year. If repairs and maintenance are added the total is nearly £5 billion higher. We are spending about a quarter more in real terms than in 1979 on motorway and trunk roads; combined spending - public plus private - on housing renovation has increased 47 per cent over the same period.

3. This is not a record of neglect. But we must complement infrastructure project with tax cuts. They are vital for two reasons. First, we need to motivate people to work harder and more productively. This means rewarding effort. Higher public spending, even on capital projects, fails to do this. Second, cutting taxes encourages workers to accept lower pay increases and helps the competitive position of British industry. Increased spending doesn't achieve this either.

4. We must have a sensible balance between the necessary spending to maintain and improve our infrastructure, and providing people with enough incentives to work. Both are essential to economic performance.

DEFENSIVE NOTE **ANNEX D**

TAX CUTS AND THE RICH

(Some Noble Lords have argued) that tax cuts only help the rich. It is certainly true that under our income tax system those on high incomes inevitably gain more in cash terms than those on low incomes from basic rate cuts. But the increase in allowances of 22 per cent in real terms since 1979 has given the greatest proportionate cut in tax to the lowest paid, of whom 1.4 million have been taken right out of tax compared with indexation of the 1979 allowances.

The most well-paid have, of course, gained from the reduction of the highest rates of income tax. But we make no apology for cutting the absurd rates of tax - up to 98 per cent including investment income surcharge - which were in force when we took office. The futility of such penal tax rates is demonstrated by that the fact that top income earners are now paying a bigger share of tax than in 1979. The top 5 per cent are now paying 27 per cent of all income tax, compared with 24 per cent in 1978-79.

In this year's Budget tax thresholds for the 45 per cent and higher rates were deliberately increased by less than indexation, so that the top rate taxpayer gained only about the same as if thresholds had been indexed without a basic rate cut.

79.45.

DEFENSIVE NOTE

ANNEX E

GREEN PAPER: PROFIT RELATED PAY - A CONSULTATIVE DOCUMENT

Green Paper ignored: The Green Paper has been widely welcomed. Even the Times and the Guardian were at one in welcoming it. Both CBI and TUC say that they will study the Green Paper carefully.

An expensive public relations gimmick Not at all. Profit related pay tried and tested both here and abroad. It is no gimmick: it has proven advantages.

The potential cost quoted by the Shadow Chancellor of £1 billion is exorbitant We have noted with interest that the Shadow Chancellor judges that profit related pay will be very successful. The Government is not prepared to speculate at this stage about the potential cost - but if 2 million employees received 10% of average earnings as PRP the Exchequer cost would be about £150m.

PRP just aimed at reducing wages No it is about increasing flexibility. If profits rise pay would rise; if profits fall pay would fall.

CBI only lukewarm Not so. At NEDC the Government was promised a constructive response by the CBI. Sir Terence Beckett welcomed the Green Paper and acknolwedged that the increased flexibility in its proposals reflected comments made by CBI members.

CBI think virtually no-one will take up your scheme CBI said "a number of companies will resopnd positively to the Green Paper". The advantages of relating a part of pay to profits are clear. I hope that the further debate stimulated by the Green Paper will mean that companies will think very carefully about introducing profit related pay irrespective of whether or not there is a tax relief.

PRP bad for workers Not so. It would help increase identification between employees and employers. TUC leaders recorded as saying "we shall study Green Paper carefully". Am sure TUC recognises it would be foolish to be critical of profit related pay which has potential benefits for both employees and employers.

This will do nothing for the unemployed Profit related pay has a direct bearing both on improved industrial performance and on tackling flexibility in our pay system which is one of the root causes of unemployment.

Tax relief mean I do not regard a tax relief to someone on average earnings of up to £12 a month as mean. I am sure that many employees would welcome the size of tax relief.

INITIAL RESPONSES TO GREEN PAPER

1. Press

(a) Times leader: "In the search for long term measures to help more people keep their jobs and encourage overcautious employers to create more, it is hard to imagine a more useful industrial relations reform than relating people's pay more clearly to profits".

(b) Express leader: "Many of today's unemployed could well still be in work if companies had adopted such a policy in the past."

(c) Daily Mail leader: "There is no instant nor magic formula for evaporating the dole queues and for moderating irresopnsible pay increases. But it (PRP) could have a steady and beneficial impact on both."

(d) Sun leader: "When will Nigel cut the cackle and put his bright idea into practice?"

(e) Guardian leader: "If the Government's motives are part political - presenting a pre-electoral "caring package" ..... that should not matter. Yesterday's Green Paper is a good starting point for developing a system of wage bargaining which nudges workers towards wealth creation."

(f) FT leader: "The new consultative document is a retreat from radicalism ..... but deserves a welcome .... no panacea .... open to accusation of tinkering ... In the present state of the labour market the case for all forms of experimentation involving cooperation between labour and capital to promote employment deserve a fair wind."

2. Employers

(a) Sir Terence Beckett: various papers, 16 July. CBI press release said:

"We are pleased to see the increased flexibility envisaged in the Government's latest proposals. This reflects many of the comments made by the CBI members, and we th ink that a number of companies will resopnd positively to the Green Paper. The CBI will be consulting its members widely on how attractive they find the new proposals, and how the suggested tax relief could operate. One particular issue which needs to be clarified with members is the relationship of any profit related pay to people's normal pay arrangements from year to year."

[CBI advise us that last sentence is directed at employers and not Government: ie how they intend to tackle the pressure for both an anual increase and the introduction of PRP.]

(b) British Institute of Management: "Telegraph, 16 July: Green Paper "flexible enough to be practical", but tax relief "less attractive" than expected.

(c) Telegraph: 16 July, "reaction lukewarm. Some companies expressing some concern at decision to scale down tax incentives." "Scheme may have been "drawn too loosely."

3. Unions

(a) Bill Jordan, President, AEU, "Today" 16 July reported accusing Chancellor of "chickening out" of original plans.

(b) TUC press release 16 July said:

> "The Chancellor may have scaled down his proposals but still many Trade Unionists will be suspicious that pay flexibility is just another formula for pay reductions. Nevertheless we shall study Green Paper carefully and shall comment in detail when that study is completed."

(c) David Lea (TUC), Channel 4 News 15 July: "Do not want to rule it out .... must look at it on a case by case basis." "Unions will have to get much more involved in figuring out how the profit is being made - how R & D, expenditure on training and other things is decided."

4. Labour Party

Mr Hattersley, News at Nine 15 July: "An expensive public relations gimmick." "Could cost up to £1 billion but offering nothing to the unemployed."

ANNEX F

PERSONAL EQUITY PLANS BRIEF

Factual

i. From 1 January 1987, Personal Equity Plans will provide a new tax incentive for investment by individuals in shares and unit trusts:

- no income tax will be payable on reinvested dividends;

- no income tax will be payable on reinvested interest on cash held in plans (within set limits);

- subject only to qualifying period of between 1 year, 1 day and 2 years, no CGT will be payable on gains made in plans.

ii. Individual investor need have no dealings with the Revenue over his/her plan.

History

iii. Budget speech announced radical new scheme to encourage direct investment in equities: "any adult will be able to invest up to £200 a month, or £2,400 a year, in shares".

iv. Inland Revenue Green Prospectus published on 12 May made it clear that investment in unit trusts and investment trusts would be allowed "up to a low limit".

v. Financial Secretary announced on 17 July, in answer to a Written Question, that limit on investment in unit trusts and investment trusts would be £420 a year, or 25% of annual subscription, whichever is the higher.

vi. General allowance for cash in plans reduced from £500 mentioned in Green Prospectus to £240, or 10% of value of plan. Otherwise documents in "Information Pack" published on 24 July contain no material changes in proposed rules from those in the 12 May Prospectus.

Details of scheme

vii. Eligible investors: individuals aged 18 and over ordinarily resident for tax purposes in the UK, plus crown servants serving overseas.

viii. Limit on investment - one plan/annual subscription of up to £2,400 a year (lump sum or instalments) (exclusive of invested interest and dividends). No limit on number of yearly plans which can be made (ie after 3 years an investor could have three plans).

ix. Investment must be in ordinary shares in UK incorporated companies quoted on the listed securities market of the UK Stock Exchange: BUT

x. Up to £420 a year, or 25% of total subscribed, whichever is the higher, may be put into unit trusts/investment trusts.

xi. Shares beneficially owned by investors, but held by plan managers.

xii. It is for the investor to choose whether to make investment decisions himself, or to give plan manager authority to act on his behalf.

Plan managers

xiii. Plan managers must be authorised under the Prevention of Fraud (Investments) Act 1958, and in due course under the Financial Services Bill, to act as fund managers. They must be registered with the Inland Revenue.

xiv. On request, plan managers must supply the Revenue with details of their plans, including list of investors, investments made and tax credits claimed.

xv. Dividends will be paid net of tax in the usual way. Plan managers will claim tax credit on rolled up dividends and interest from the Inland Revenue monthly.

Legislation

xvi. Enabling legislation contained in 1986 Finance Bill. Detailed rules will be set out in Regulations in the autumn.

Cost

xvii. Exchequer cost will depend on take-up. It will be negligible in 1986/87, and is estimated to cost £25m in 1987/88, on assumption that ½ million people take out a plan in the first year of the scheme and each subscribes £2,400.

Loi Monory approach/US individual retirement accounts(IRAs)/ expenditure tax.

xviii. Loi Monory and US IRAs give tax relief for purchase of shares, combined with tax charge on exit. Personal Equity Plan scheme proposes opposite approach, ie no tax relief on purchase, but tax relief when money is withdrawn from plans (after end of qualifying period). The tax advantages build up over time. The revenue cost, at least in the early years, is thus much smaller than it would be under a Loi Monory approach. The amounts covered are greater: Loi Monory limited to investment of about £700 a year. And the administration is easier: Loi Monory has complicated tax rules for withdrawals.

Wider share ownership

xix. Treasury survey in May 1986 by NOP showed that 14% of individuals in UK were shareholders. More recent Stock Exchange survey suggested the figure lay in the range 12%-16%.

Views of other political parties

xx. No criticism of the objective of Personal Equity Plans. Terry Davis has argued that only people with income more than £25,000 a year will benefit from the Personal Equity Plan proposal. Parliamentary pressure to include unit trusts, and more recently to exclude companies with South African connections. Also some criticism of fact that details of Personal Equity Plans will be contained in Regulations, not primary legislation.

Defensive

i. **Schemes will cost more to run than annual value of tax relief?**

All forms of investment involve costs to investor. Essential element of Personal Equity Plans is that charges are transparent to investor. Competition should keep charges down.

ii. **Why such minimal tax relief?**

Tax reliefs cost money.
They need to be carefully targetted.
The tax reliefs on Personal Equity Plans build up over time - even small investors can build up sizeable holdings over a perid of years.

Why not a Loi Monory?

Wanted something cheaper and simpler.
Wider share ownership already a fact, so not necessary to provide as great a stimulus via the tax system as in France. Personal Equity Plans much simpler for investor than schemes like Loi Monory involving tax relief on investment. With latter, individual needs to report to tax authorities.

iv. **Insufficient tax relief for small investors?**

Acknowledge CGT annual exemption (£6,300 in 1986/87) will cover many of them in any case. But purpose of scheme is to encourage investors to retain shares, accumulate plans and reinvest dividends. Even small investors could build up sizeable holdings over a period.

v. **Is this a move away from an Expenditure Tax?**

No. Government position on an Expenditure Tax made clear in 1984 Budget Speech, when Chancellor said that he believed that even if such a root-and-branch charge were desirable, it would be wholly inpractical and unrealistic. Some fiscal incentives eg BES, give tax relief on entry because necessary to give major tax incentive

to achieve desired result. Not necessary in case of Personal Equity Plans; slow build up of cost to Exchequer clearly an advantage.

vi. **Why limit investment in unit trusts and investment trusts?**

Objectives of scheme, ie desire to encourage direct investment by individuals in UK, shares behind decision to limit investment in unit trusts/investment trusts. Need for simplicity means no conditions on underlying investments by trusts.

vii. **Why allow any investment in unit trusts/investment trusts if aim is to encourage investor interest in individual companies?**

Need to balance objectives of scheme against need of very small investors in plans to have reasonable spread of risk.

viii. **If spread of risk major consideration, unlimited investment in unit trusts/investment trusts should be allowed?**

Need to strike a balance. Limit will protect investors with £35 a month or less. Reasonable to encourage those with more to invest to put cash direct into shares of individual companies, which is underlying purpose of scheme.

ix. **Why treat investment trusts in same way as unit trusts? Shares investment trusts are just like shares in companies**

Aim of Personal Equity Plan scheme is to stimulate interest in profitability and performance of individual UK firms. While investment trusts are companies under law, they cannot provide direct relationship between the investor and companies in which the trust invests. Investment trusts, like unit trusts, are intermedaries. Investment trusts already tax-privileged under Section 359 of Taxes Act 1970. Investment companies - which are not tax privileged - can be included without restriction in plans.

x. **Why not make dividends payable gross?**

Gross payment would involve extra work and extra costs (in cash flow terms) for companies. Would not relieve plan managers of

need to keep record of tax credit on dividends. Arrangements for plan managers to claim back tax credit from Revenue on monthly basis should work smoothly. And registration problems with 'cum dividend' transactions would mean that in some cases, managers would have to claim or replay tax credits in any event.

xi. **Why not allow investment in Unlisted Securities Market?**

Wish to limit degree of risk for new investors as far as possible. USM and Over the Counter markets likely to be undergoing a process of change over the next few years. Can look at question of qualifying investments at some future time. But for the start of the scheme investments will be limited to listed shares.

xii. **Allow shares held under employee share-ownership schemes to be transferred into Personal Equity Plans?.**

No. Investors must subscribe cash. Purpose of scheme is to encourage first time investment in shares.

xiii. **Plan managers will not be prepared to handle small investments?**

Doubt this. After "Big Bang", market will be different. Already signs that many market makers want to attract small investors.

xiv. **Rules should allow Plans to go liquid eg in bear market**

For portfolio management plans may be held in cash for up 'to 28 days'. To allow unlimited period would be contrary to purpose of scheme. Subject to qualifying period, disposal of shares in bear market will not penalise investors.

xv. **Why reduce cash limit from £500 (in Green Prospectus) to £240?**

£500 was provisional figure when it was thought it would apply to instalments in first year. Now intended ~~the full~~ that up to £2,400 can be held in cash in first year before investments must be made. So lower figure of £240 - or 10 per cent total plan investment - is sufficient for rolled-up dividends.

xvi. **Personal Equity Plans will only act as tax break for rich?**

No. Simplicity of scheme designed to appeal to small investors. Permitted holdings of unit trusts and investment trusts will enable them to have spread of risks. And CGT relief will be useful, because even small investors can build up sizeable holdings over a period.

ANNEX G

FINANCE BILL - HOUSE OF LORDS' DEBATE

TAXPAYER'S CHARTER

Factual

The Board of Inland Revenue publish. their annual report at 11.00 on 25 July, the day of the House of Lords debate. There is a small chance that someone will raise the subject of the "Taxpayer's Charter" which is being included in the Board's Report.

The Taxpayer's Charter is being issued jointly by the Board of Inland Revenue and HM Customs and Excise. It brings together and publishes for the first time the principles which the departments try to meet in handling taxpayers' affairs. It sets out the standards of service which the Departments believe the taxpayer has a right to, and what people can do if they wish to appeal or complain.

The Inland Revenue and Customs press releases (which include the text of the Charter), and the Treasury press release (which covers the Financial Secretary's welcoming statement) are below.

Positive

The Charter is a public commitment to the standards of service which the Revenue and Customs aim at providing.

It recognises that the tax system depends on the consent and co-operation of taxpayers.

It reflects principles already set out in departmental instructions to staff and on training courses.

It marks a further stage in the Departments' commitment to a better public understanding of their work.

It is welcomed by Ministers (for statement by Financial Secretary see Treasury press release).

Defensive

It does not mean that everyone who writes to their tax office will receive a reply by return of post or that the departments will never make a mistake. No large organisation could claim this.

The Board of Inland Revenue recognise in their Report that because of recent pressures on the department, many local offices have not been able to give the desired standard of service. But steps were taken last November - more staff, use of overtime, temporary deferment of low priority jobs - to bring down arrears. These steps are meeting with success.

It is not a new restriction on Inland Revenue activities: it is a restatement of the principles which the Department has always sought to follow.

WINDING UP SPEECH **ANNEX H**

PERORATION

My Lords, we have now reached the completion of the Parliamentary stages of this Bill, which represents a further significant step on this Government's path towards a tax system which allows a proper reward for those who are prepared to work hard, take risks, and invest in the future. This will make an important contribution to the improvement of our economy's supply-side performance. In turn, it will provide an essential adjunct to the enhanced macro-economic performance, with sustained economic growth and rising employment, which the successful control of inflation will bring.

I commend this Bill to your Lordships.

Copy walked to DEm 25/7

(Revised version not seen by Chancellor)

1. PS/CHANCELLOR
2. PS/LORD YOUNG
(MR MCKINNON)

FROM A B MURRAY
DATE 24 JULY 1986

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Mr Monger
Mr Scholar
Miss Sinclair
Miss O'Mara
Mr Haigh
Mr Romanski
Mr Hacche
Mr R K C Evans
Mr Walker, IR ← Mr Tyrie
Mr Bone, C&D

FINANCE BILL: HOUSE OF LORDS STAGES

As discussed at this afternoon's meeting with Lord Young, I attach a slightly revised draft speech for tomorrow morning's debate, (the significant changes are sidelined) plus factual and defensive notes on the oil price, and speaking notes on Labour's plans to tax the rich.

Andrew

A B MURRAY

3320 010

FINANCE BILL: HOUSE OF LORDS SECOND READING

My Lords, I beg to move that this Bill be read a second time.

2. The Bill will implement the tax changes announced by my Rt Hon Friend the Chancellor of the Exchequer in his Budget Speech four months ago. That Budget was set against the background of a substantial drop in oil prices, and hence in North Sea tax revenues. Expectations of what the Budget would contain were inevitably depressed.

3. But as the Chancellor emphasised in his speech, such expectations underestimated the underlying strength of the British economy, and over-emphasised the extent to which we are dependent on the North Sea. This strength is in no small part due to the success of our policies of sound money and free markets, which remain the cornerstones of the Government's economic strategy.

4. The results are clear. The economy is now in its sixth year of growth - a broadly-based growth which owes more to rising investment - up, on average, by 5 per cent a year over the current upswing - and exports, than to higher consumption. Meanwhile, we have brought inflation down to just 2½ per cent - the lowest for almost 20 years - and the public sector borrowing requirement down to just 1¾ per cent of GDP - the lowest proportion since 1971-72. So although the oil price

has now fallen to one-third of its level last autumn, our foreign exchange reserves have risen by well over $1 billion since the turn of the year.

5. Unemployment, of course, remains a most serious blot on this otherwise impressive record. Since 1983, the economy has created over a million new jobs, but unemployment has continued to rise, as the growth of jobs has been outstripped by the even more rapid rise of the labour force. Over the next few years, the growth in the labour force should ease off, but the economy still needs to generate new jobs at a faster rate if we are to make a major dent in the unemployment total. The key to this is in the hands of management. We simply cannot afford to let our wage costs per unit of output increase at around 6 per cent when our US competitors' costs are rising only 2 per cent, the Japanese only 1 per cent, and the Germans nothing at all. The fall in the inflation rate to 2½ per cent means we now have a golden opportunity to reduce the level of pay settlements in this country without imposing a corresponding cut in living standards. Indeed, the tax and price index shows that as a result of the Budget reduction in the basic rate of income tax, it now takes a pay increase of only ½ per cent to allow workers to maintain their real living standards over the last year.

6. The responsibility for the current level of pay settlements lies squarely with employers. The Government believes that

there needs to be greater flexibility in our antiquated structure of pay bargaining. Noble Lords will recall that the Chancellor announced in his Budget the Government's support for the concept of profit-related pay as a means of improving pay flexibility. A possible scheme of tax relief for PRP was described in a Green Paper presented to Parliament last week jointly by the Chancellor, the Secretary of State for Trade and Industry and myself, which emphasised the advantages of profit-related pay.

7. Greater adoption of PRP arrangements would help to break down the "them and us" barrier which has bedevilled British industry for years. And making the pay of employees more responsive to the profits of the business in which they work should encourage employers to take on more labour, knowing they will be under less pressure to lay off workers when business is slack. The Green Paper makes clear that while the Government is in no doubt as to the merits of PRP, it has not yet decided whether tax relief should be given.

8. More immediately, the Chancellor also announced in his Budget the substantial extra sums we shall be spending on employment measures - almost £200 million this year, and nearly half as much again next. We are expanding the Community Programme to 255,000 places this year and developing a nationwide Restart programme. Under this scheme we will offer every one of the long-term unemployed help towards finding a job. Self-employment is growing particularly rapidly - by nearly

½ million since the last election - and this is a trend we, as a Government, have deliberately encouraged. Those who go into business on their own account today include the large employers of tomorrow. So we have given particular emphasis to the expansion of the Enterprise Allowance scheme. Three out of five of those taking advantage of the full 12 month Allowance are still trading 3 years after setting up in business. And on average each of these firms has in addition created another new job.

9. Unemployment among the young is an especial scourge. So we are not only spending over £900 million this year alone on the Youth Training Scheme, but we have also introduced from April the New Workers Scheme, providing for a full year a £15 a week allowance to employers of low paid young workers in their first job.

10. But a debate on the Finance Bill must, above all, focus on the tax measures in last March's Budget. Despite the problems of oil, the strength of the rest of the economy led us to forecast buoyant non-oil revenues, with a considerable increase in corporation tax receipts, following the 20 per cent increase in company incomes between 1984 and 1985. So the Chancellor was able, within a prudent Budget, to further the Government's objective of reducing the burden of taxation, and to propose a substantial range of reforms and improvements to the tax system. It is these changes to which I now turn.

11. The 1p reduction in the basic rate of tax accounts for by far the largest part of the £1 billion net tax reduction in the Budget. The taxpayer now keeps more of every additional pound he or she earns - a stimulus to motivation, initiative and enterprise. One penny off the basic rate looks modest. But coming on top of the 3p reduction in 1979, it represents a further significant step towards our objective of a rate no higher than 25 per cent.

11A. In this year's Budget the 45 per cent and higher thresholds were increased by £1,000, successively less and less than would have been required for indexation, so that the gains from the basic rate cut were reduced for those on high incomes. The 60 per cent taxpayer, for instance, got broadly the same as under statutory indexation <u>without</u> a basic rate cut.

12. The reduction in the burden of income tax, whether by cutting tax rates or raising personal allowances, is a prime objective of Government policy. The case for reducing the tax rate this year, rather than again increasing allowances beyond indexation - our allowances are now some 22 per cent higher than in 1979 - is strengthened by comparison with our overseas competitors. Our tax allowances are now around the middle of the range for the major developed countries, but our starting rate of tax was, at 30 per cent before the Budget, well out of line, especially compared with rates of 15 per

cent or less in the US and Japan. The reduction to 29 per cent is an earnest of our determination to bring the UK more into line.

13. Taxes on spending were as a whole increased only in line with inflation. However, I should point out that while duty on road fuel was increased by slightly more than inflation, the effects on the pump price were more than offset by the dramatic fall in crude oil costs. Despite the duty increase, the average pump price of petrol has come down by a sixth over the last 7 months. And as there was no increase in vehicle excise duty on most vehicles, the overall burden of duty on the motorist remained unchanged in real terms.

14. For businesses, this year has seen the completion of the reforms announced by the Chancellor in 1984, with the main corporation tax rate now down to 35 per cent, lower than any of our major industrial competitors. Meanwhile non-North Sea company profitability reached a post-1973 high of 8 per cent last year, and the Government forecasts it will rise to over 9 per cent this year as costs - of which oil is the most obvious example - fall.

15. However, while we do not envisage any further major changes in the business tax structure, the Bill does include two essentially tidying-up business tax measures. These bring mines and oil wells allowances more into line with the new

system of capital allowances, and provide for a full measure of depreciation for short-lived agricultural buildings and works. And the Bill also includes a further cut in the small firms' rate of corporation tax, to 29 per cent, in line with the new income tax basic rate. This compares with the rate of 42 per cent in force in 1979. Moreover the benefits of the small firms' rate do not run out until profits reach £½ million a year, ive times the upper limit which applied when the Government came to power.

16. But the Bill does contain a number of radical measures. I would highlight especially those which encourage enterprise and investment. The abolition of the tax on lifetime gifts between individuals, and the reform of the remaining elements of capital transfer tax as inheritance tax, will be a direct benefit to the very many family businesses which are such an important part of our economy. The introduction of the Personal Equity Plan from next January will provide new incentives, particularly for the smaller saver, to invest up to £200 a month in quoted UK companies, sustaining the expansion of personal share ownership, which has grown so rapidly since 1979. Recent surveys indicate that the proportion of individual shareholders has doubled over the period. So we are already off to a good start towards our aim of making Britain a nation of share-owners, as well as house-owners.

17. The cut in the rate of stamp duty on share transactions to ½ per cent from the date of the Stock Exchange's 'Big Bang'

this autumn will also help investors. And it will also help London to continue to compete successfully in the ever more competitive worldwide securities market.

18. There is, of course, a great deal more still than this in the Bill, but I would like to draw the House's attention to just one more area - charities. The Bill gives effect to the highly generous range of new reliefs for charitable giving which the Chancellor announced in his Budget. These will allow non-close companies to obtain relief for single gifts up to 3 per cent of their ordinary dividend payments. Individuals will no longer be limited in the higher rate relief they can obtain on covenanted donations. And we have introduced an entirely new relief to encourage payroll giving schemes. Where an employer decides to participate - and I hope many will do so - employees will be able to get tax relief on charitable donations, up to £100 a year, which are deducted from their pay. The scheme will start next April.

18A. As my noble friend Lord Brabazon of Tara said on Monday, the Inland Revenue have just published two leaflets explaining the tax reliefs now available for charitable gifts by individuals and businesses. The leaflets are available from local tax offices, and I hope that they will help donors and charities to take full advantage of the new reliefs.

19. The cost of these new reliefs will naturally depend on how generously the public respond to them. We estimated that

the cost to the Exchequer could be £60 million in 1987-88. But that is not intended as an upper limit, and if the new reliefs stimulate more donations than we have anticipated, we will be only too pleased.

20. Side by side with the new reliefs, it was necessary to take action to deal with the abuse of charity tax relief by an unscrupulous minority of charities. Noble Lords will no doubt recollect, however, that a number of entirely reputable charities expressed their concern that our original proposals went too far, and could have resulted in problems for bona fide charities. So, in the light of discussions with representatives of the charity world, the provisions in the Bill were substantially revised during the course of its passage through the other place. These changes were widely welcomed as a response to the criticisms which had been made.

21. To sum up, the measures in the Bill continue the process of tax reduction and reform to which we are committed. Only in this way will we be able to create the right conditions for enterprise and initiative to thrive, to the benefit of us all.

22. It is clear that our policies are succeeding. Last year the UK topped the EC growth league, when we also grew faster than the U.S. Total output and investment were at all time highs. The current account was in surplus for the sixth

successive year. The UK's net overseas assets reached almost £90 billion, competing with Japan for the highest in the world.

23. Measures in this Bill demonstrate our continued commitment to promoting an enterprise culture, and I commend it to the House.

OIL PRICES: EFFECT ON TAX REVENUE, AND ECONOMY AS A WHOLE

Factual

(i) FSBR forecast based on assumption of an oil price of $15 per barrel in last three quarters of 1986 and throughout 1987. Thereafter, assumed constant in real terms. Assumptions were averages - did not refer to price for each week or month. Outside forecasters still assuming $15 on average, despite lower oil prices since Budget.

(ii) Brent price data

	$/bl	£/bl
November 1985	29.7	20.6
March 1986	13.8	9.4
June 1986	11.9	7.9
Close 23 July	8.6	5.7

(iii) Government Revenues

	1985-86	Forecasts 1986-87	£ billion 1987-88
FSBR	11½	6	4
Average of outside forecasts		6	4¼

(iv) Current account

FSBR forecast showed a surplus of £3½bn in 1986, declining to £1½bn (annual rate) in the first half of 1987.

Defensive speaking notes

(i) **FSBR oil price assumption too high?**

Oil prices have been weaker than expected since the Budget, but also very volatile. $15 is still the assumption used by many City and international forecasters. Too early to be sure about this. The assumption relates to average over a year, not to weekly or monthly price - but could be too high.

(ii) **North Sea Revenues projection too optimistic?**

Too early to say, but possible that oil price will average below FSBR forecast for 1986-87. FSBR in line with average of City forecasts.

(iii) **Current account forecast**

Non-oil trade performance in early 1986 has been disappointing. FSBR forecast may be too optimistc. Revised forecast will be published in the Autumn. Lower oil prices reduce oil surplus but partly offset by reduced invisible earnings by foreign-owned oil companies. Lower exchange rate will boost non-oil trade balance.

(iv) **Effect of lower oil price on growth, inflation**

Effects broadly neutral. UK loses from lower value of net oil exports but gains as major trader from improved world activity and lower inflation.

LABOUR'S TAX POLICIES

Speaking notes for wind-up speech

In contrast to the tax reductions embodied in this Bill, I should point out that spokesmen of the party opposite have already said they will increase taxes, to the tune of £3½ billion, to pay for their package of social security measures.

Labour will bring back the penal capital taxes they left us with in 1979, and they will increase income tax on the so-called rich. The shadow Chancellor has now [BBC Radio 4, 'World this Weekend', 20 July] said that the very rich are those earning £27,000 or more - who he says are the top 5 per cent. But to raise his £3½ billion would mean not only restoring capital taxes to their 1979 levels, but also imposing an 80 per cent marginal tax rate on gross incomes over £27,000. With investment income surcharge back at 15 per cent, marginal tax rates would be up to 95 per cent.

That is hardly the way to maintain incentives and encourage enterprise. On the contrary, it would damage the economy, and damage prospects for jobs.