PO-CH/NL/0106
PART B

CONFIDENTIAL

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PO -CH /NL/0106

PART B

1987-88 BUDGET REPRESENTATIONS

DD's 25 years N Agis 10/8/95.

29.2.88

PO -CH /NL/0106

PART B

MR 11/57

Pwp

MINUTES OF A MEETING HELD AT

4.30 PM ON WEDNESDAY 4 FEBRUARY

IN HM TREASURY

Those Present:
- Chancellor
- Minister of State
- Mr Stern
- Mr Jefferson-Smith - C+E

Mr Metcalfe)
Mr Jones)
Mr Edwards) NLVA
Mr Overton)

Mr Michael Colvin MP

NATIONAL LICENSE VICTUALLERS ASSOCIATION (NLVA): BUDGET REPRESENTATION

The NLVA said they welcomed the stand still on alcohol duty in the last Budget, but they had been extremely annoyed with the Brewers for increasing prices. They hoped that it would be possible to leave the duty on alcohol unchanged again in this Budget. They also urged the Chancellor not to increase the license duty on gaming machines. They supported the Brewers protest against the application of the VAT input tax changes to tide house rentals.

Duty Increases

2. The NLVA had been very annoyed with the Brewers for increasing prices after the last Budget. The Chancellor said that he had also been surprised. He had seen the Brewers before the last Budget and they had said that consumption was suffering and that this due to price. They had asked for no increase in duty, but had then more than cancelled out the benefit by increasing prices. This did not throw a favourable light on their arguments.

3. Mr Colvin said that there was a strong movement who would like to see alcohol priced out of the market altogether. They would doubtless be bringing pressures to bear on the Chancellor.

Gaming Machine Licence Duty

3. The NLVA said that any increase in the licence duty on gaming machines could not be recovered by changing the stake or the payout of the machine as this would reduce its attractiveness. Many public houses in rural areas were only viable because of profits from gaming machines. The Minister of State said that he thought that there had been a recent increases in prize money. The NLVA said that the limit on prize money had been increased by £1. However, their competitors in clubs had been allowed to increase their maximum payout by £50. Competition from clubs both in this area and because they were able to subsidise drink prices was a serious threat. The Chancellor noted that the limit on prices was an issue for the Home Office, and not for him. The Minister of State asked whether the NLVA were able to produce any detailed figures explaining why gaming machines were not viable. The NVLA said that they were not, but revenue had dropped substantially recently.

VAT Input Tax Changes

4. The NLVA said that the proposed VAT input tax changes would fall on tenants. The cost of repairs was normally recovered by increasing rent over a period of time. The tenant would be unable to recover this because of customer resistance to price increases, and would have to foot the bill himself. The Chancellor said that he was very conscious of the problem and the Minister of State and Mr Jefferson-Smith had been talking to the Brewers to try and find a solution. Mr Jefferson-Smith said that he had seen the Brewers recently and had put to them a specific proposal which he hoped would be satisfactory. The Minister of State would be seeing the Brewers next week.

5. The NLVA said that their Licensee Paper had stated that they would be meeting the Chancellor. The Chancellor said that it was important that they did not say anything more than this.

CR

CATHY RYDING
5 February 1987

Circulation:-
Those present from HMT and C&E
PS/CST
PS/FST
PS/EST
Mr Scholar
Miss Sinclair
Mr Romanski
Mr Cropper
PS/C+E

INHERITANCE TAX: TRANSFERS TO POLITICAL PARTIES

CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

Prayers FRI 6/2/87

FROM: B T HOUGHTON
4 FEBRUARY 1987

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Cropper
Mr Tyrie
Mr Ross Goobey

CHANCELLOR OF THE EXCHEQUER

INHERITANCE TAX: TRANSFERS TO POLITICAL PARTIES

1. You asked whether there are any special IHT or CGT provisions for transfers to political parties. There are none on the CGT side.

2. On the introduction of capital transfer tax in 1975, gifts to political parties were treated like gifts to charities - totally exempt unless made on or within one year of death in which case exemption was limited to the first £100,000 of such gifts.

3. Since 1975, the position has been improved for gifts to charities within one year of death. The limit was raised to £200,000 in 1980; to £250,000 in 1982; and finally abolished for charities in 1983. But the £100,000 limit for political parties remains at the level set in 1975. The current equivalent would be around £350,000.

4. As far as we are aware, there are very few donations to political parties even as large as £20,000, and (unlike the case of charities) there has been no pressure for a change. The analogy with charities is perhaps not an exact one, since benefactors of large sums make bequests to several charities - so that when the charity exemption was limited it had in effect to be shared between several bodies. However, it would be most unusual for a testator to leave bequests to more than one political party. But the lack of evidence of such gifts at or near death suggests that the more significant gifts are made in life, and thus any change in the present limit appears unlikely to have much effect.

B T HOUGHTON

cc. Mr Battersby

4372/09

CONFIDENTIAL

Pps(6)

FROM: FINANCIAL SECRETARY
DATE: 5 February 1987

CHANCELLOR

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

FINANCE BILL STARTER NO. 177

INHERITANCE TAX: INTEREST IN POSSESSION TRUSTS

1. I have now discussed Mr Houghton's paper of 26 January with officials and my view is that the line drawn last year should be moved so as to bring transfers to an interest in possession trust on the same basis as outright giving. As you know, transfers to accumulation and maintenance trusts are already Potentially Exempt Transfers (PETs). I conclude that interest in possession trusts should be treated in the same way, (that is to tax transfers only if the transferor does not survive for seven years).

2. I have had two main reasons for this. Firstly, I believe that the trust has a role for example in relation to businesses and the heritage, quite apart from any tax advantages and that it would be a retrograde step if trusts as such became redundant. Secondly, having conceded the principle in the case of children under 25 on Accumulation and Maintenance Trusts I cannot see why the same principles should not apply to IIP Trusts.

3. It is clear from the many representations I have received from people in the legal profession whose opinion I respect that there is strong pressure for this change. They take the view that a gift into an IIP Trust is closer to absolute giving than to a discretionary trust and should be treated accordingly. There seems to me to be much justification in this view.

4. As Mr Houghton's note points out such a move will bring pressure on the treatment of discretionary trusts. However, I believe the line can be firmly drawn here and I would strongly resist any attempt to extend it further. Furthermore, I believe it can be logically defended and that discretionary trusts are a different sort of animal.

X

5. In addition redrawing the line would open up a number of avoidance routes. Having discussed these with officials I am satisfied with the solutions the Revenue propose to counter them. They follow closely those suggested last year in Committee by Brandon Rhys Williams, and I think that the practitioners would be very surprised if we re-drew the line without some such anti-avoidance provisions.

6. The Law Society have suggested the possibility of informal pre-Budget consultations with the Revenue on the technicalities of the anti-avoidance legislation. On balance I think that there are too many dangers involved in doing this and I have come to the conclusion that there should be no consultation before the Budget but that the Revenue should talk to the Law Society immediately afterwards to try to ensure that the legislation is fully ready in time for publication of the Finance Bill. Separately from this Peter Cropper and I would see John Avery-Jones.

7. Subject to your being content, I would propose that Parliamentary Counsel be instructed to draft the appropriate legislation to move the line between absolute property and trust property so as to bring interest in possession property on to the same basis as absolute property, with the anti-avoidance provisions proposed by the Revenue.

8. I have discussed this matter with Peter Brooke who had to defend the line that was drawn last year. He does not feel it would be embarrassing to shift it this year.

9. Peter Cropper is in agreement with my views.

10. I believe this would be warmly welcomed and I strongly recommend it.

NL

NORMAN LAMONT

4372/14 **BUDGET: CONFIDENTIAL**

FINANCIAL SECRETARY TO THE TREASURY

FROM: N WILLIAMS
DATE: 5 February 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Miss Evans
Mr Cropper
Mr Ross Goobey
Mr Battersby IR
PS/IR

Thanks. 2. On presentation, we will need to have a discussion of presentation of various Budget measures in the context of the package as a whole at a subsequent overview. 3. Meanwhile, what proportion of estates will be taken out of tax by this measure? N.

INHERITANCE TAX RATES AND BANDS: BS 104

1. The Financial Secretary has seen your minute of 2 February recording the Chancellor's view on the "smooth 4 point 90" sale. He has also seen Mr Battersby's further note of 2 February.

2. The Financial Secretary is also in favour of adopting the "smooth 4 point 90" scale.

3. The Financial Secretary would be content for this choice to be presented along the lines suggested in paragraphs 9 and 10 of Mr Battersby's note.

4. He feels that it is also worth bringing out the point in paragraph 8 of Mr Battersby's note that the effective rates of tax for all estates up to (around) £158,000 will be below those of the revalorised 1975 scales.

NWilliams

NIGEL WILLIAMS
(Assistant Private Secretary)

AS/FST to PS/CH 5/2

Rup

NOTE OF A MEETING HELD AT 4.15PM ON THURSDAY, 5 FEBRUARY 1987 AT HM TREASURY

Present:	Minister of State	Mr Gent
	Michael Stern MP	Mr Teltscher
	Mr Tullberg - C&E	Mr Matkin
		Mr Gordon (USDAW)
		Mr Insoll
		Mr Butler

WINE AND SPIRIT ASSOCIATION BUDGET REPRESENTATION

1. Mr Gent said it was several years since the WSA had last seen Ministers. Their Budget representation contained three major requests.

(i) Restraint on duty rates

2. Mr Gent said that the basic function of excise duties was to raise revenue. But the Government could no longer take the health of the drinks industry for granted. The major plague of short-termism, with companies being judged by financial institutions on the basis of their half-year results, discouraged R&D, investment and training. Manufacturers struggled to maximise market share: this led to price-cutting and erosion of profit margins. The smaller firms were struggling to survive, and often failing to do so.

3. Mr Gent argued for a longer perspective to decisions on excise duties. Revenue-raising decisions should be linked to a long-term view of the health of the industry, and (much as in the Netherlands) duty increases should not automatically occur each year. This would avoid the distortions caused by the pre-Budget rush, which was costly in terms of people, plant and stock. The Minister of State pointed out that this could lead to big shocks every few years. Mr Gent said that it was important that the impact of duty changes should be allowed to feed through to the market: annual changes were too frequent to permit this.

(ii) Fortified wines

4. Mr Gent said that since wine and beer duties became linked there had been a loss of duty on light wines. He thought it was peculiar that nothing had been done to protect strong traditional products such as port and sherry. The Vermouth industry had unwillingly taken steps to minimise duty; it would be silly if the sherry and port trade faded away because of a distorted duty regime. This could only lead to a loss of revenue.

(iii) Duty deferment

5. Mr Gent said that the Minister has already received representations on this subject; their proposal was simply a cash flow adjustment. He thought it could be convenient to make such a change this year, bearing in mind commentators' predictions that the PSBR would undershoot.

Other representations

6. Mr Matkin said the British Retailers Association, of which he was Chairman, represented about 80 per cent of take-home traders: most of the rest was accounted for by Co-operative societies. He agreed with all that Mr Gent had said: retailers were under pressure, and the Government should not exacerbate this. The £ had had a difficult time against the currencies of countries we import from, and the ethylene glycol scandals in Germany and Italy had not helped. He believed a standstill on duty would be the appropriate decision.

7. Mr Gordon, representing the Union of Shop Distributive and Allied Workers, said his union was concerned that the trade should be healthy. In a recent survey, only 5 per cent of employers in the drink and food industry said they were planning to take on staff; 16 per cent were planning to cut-back. Any duty increase could be passed to employers, rather than consumers, which would not aid job prospects. He also favoured a duty standstill.

8. The Minister of State asked if the WSA could attribute changes in market shares of different drinks to fashion/taste and price

effects. Mr Gent agreed that it was important to do this, but said that it was difficult to do. The doubling over recent years in the number of on-licence outlets (to which wine bars had made a substantial contribution) was leading to a shift of habits. "Coolers" had been very successful in the US, but a great disappointment in this country.

9. Mr Butler said that if a product was over-taxed, the state had to follow the market and reduce taxes in line with market prices. Industry and Government had to share in the misery of bringing prices down.

10. The Minister of State asked whether the trade had had a good Christmas. Mr Gent said that selling to retail outlets had been up to expectations, although grocery outlets had done better than specialist ones.

11. Finally, the Minister of State asked if an agreement to defer wine duty could have a knock-on effect for beer. Mr Gent thought that deferment would be a minefield for the Brewers: it would involve opening up other issues on beer duty that they would rather not see investigated. Beer tended to be sold quickly; bond warehouses were used much less than in the wine and spirits trade.

Deborah Francis.

p.p. **S P JUDGE**
Private Secretary
9 February 1987.

Circulation: Those present from HM Treasury and C&E
PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Mr Scholar
Mr Romanski

PS/Customs & Excise

UNCLASSIFIED

ps2/57R

PWP

MINUTES OF A MEETING HELD ON FRIDAY, 6 FEBRUARY
AT 11.00 AM IN HM TREASURY

Those present

Chancellor	Mr Fuller) Brewers'
Minister of State	Major Gen. Mangham CB) Society
Mr Tyrie	
Mr Whitmore - C&E	

BREWERS SOCIETY: BUDGET REPRESENTATION

The Brewers' Society said that they had been depressed by the latest figures for the industry. The slight recovery during the first seven months of the financial year together with an average summer in 1986 had led them to expect a small recovery in volume , but this had not proved to be the case. The industry had declined 11 per cent since its peak in 1980. This was equivalent to 1 major brewery going out of production. Excise duty had increased by twice the rate of inflation and this must have affected volumes. Independent work certainly supported this view. It was a very serious situation when the economy generally had experienced an upsurge. The only brewers who had done well were those who had diversified into other areas.

2. The Chancellor queried the Brewers' Society's claim that the duty on beer had risen by twice the rate of inflation. His figures showed an increase in the real duty on beer since 1978-79 of 25 per cent. The Brewers' Society said that the base year for their comparison was 1979 and also included VAT. No one had queried their figures before and the explanation must lie in these differences of definition.

3. The Minister of State said that there had been some disappointment last year when the duty standstill on beer had been eroded by a drift up in prices. The Brewers' Society said that they had been faced with an increase in cost. The wholesale price of beer had risen by 1p a pint over the last 12 months and lager by 1½p per pint. Retail prices had increased by 2½p and 4p. The major reason was the rise in retailing costs - predominantly on wages and building costs. Customers were demanding that considerably more money was spent on public houses. The Chancellor said that revalorisation would have increased the price of beer by about 1p per pint. Last year the Brewers' Society had produced strong arguments for a standstill on duty, but had then responded by increasing the price to the retail customer by 3-4p per pint. He was not criticising their reasons for doing this, but thought that it put the increase of 1p into perspective.

4. The Brewers' Society said that they were meeting the Minister of State in the near future to discuss the VAT input tax changes. They hoped it would be possible to reach agreement: if they did not it would mean another loss, particularly for the small brewers for whom the original proposals would have put at risk 2 per cent of their profits on VAT. The Chancellor said that he was conscious of these problems, but it had been necessary to make the change since the loss of revenue was substantial and was being increasingly exploited. They were trying to negotiate a special arrangement with the brewers, which was not available to any other trade. He thought the offer the Minister of State had made was very fair.

CR

CATHY RYDING

10 February 1987

Circulation

Chancellor
PS/CST
PS/FST
PS/EST
MST
Mr Scholar
Miss Sinclair
Mr McKenzie
Mr Cropper
Mr Tyrie
Mr Whitmore - C&E

CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: N WILLIAMS
DATE: 10 February 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monck
Mr Scholar
Mr Ilett
Mr Haigh
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Graham OPC
Mr Houghton IR
Mr Battersby IR
PS/IR

INHERITANCE TAX: BUSINESS RELIEF: BS 165

1. The Financial Secretary has read Mr Houghton's note of 6 February covering Mr Battersby's note of the same date.

2. The Financial Secretary is not in favour of pursuing the idea of legislation this year to remove the fully listed/USM differences for other taxes, in addition to IHT.

3. He does agree, however, that there is a good case, for redesignating the USM as quoted for IHT purposes.

4. Subject to the Chancellor being content, therefore, the Financial Secretary's view is that the Revenue should instruct Parliamentary Counsel to draft legislation to take effect from Budget Day which would:

(i) increase business relief from 30 to 50 per cent for holdings of more than 25 per cent in unquoted companies;

(ii) withdraw business relief for minority holdings in companies listed on the USM and make the consequential changes listed in Annex 1 of Mr Battersby's note;

(iii) make the other minor changes listed in Annex 3 of Mr Battersby's note (the balance of which would be well in favour of the taxpayer).

N Williams

NIGEL WILLIAMS
(Assistant Private Secretary)

FROM THE OFFICE OF NATIONAL CHAIRMAN

BRIAN A. PRIME
NORTH BAY HOUSE,
BORROW ROAD,
OULTON BROAD,
LOWESTOFT,
SUFFOLK, NR32 3PN.

TEL: 050 251 2489

National Federation of Self Employed and Small Businesses Limited

16 FEB 1987
MR WALTERS
CST, FST, EST, MST
MR A. WILSON
MISS SINCLAIR
MR GUY, MR TYRIE,
PS/IR, PS/C&E

PP/1728

Rt. Hon Nigel Lawson MP
Chancellor of the Exechequer
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

11th February 1987

Mr Moran.
I don't think we should concede here. If we offer the NFSE a meeting then we are wide open for further requests by small businesses. Anyhow Both the chancellor and David Trippier have made it clear that the small business sector have had their share of meetings with ministers. I suggest we turn this further request down - Do you agree
Can you please consult David Trippier's office.

G McKenzie
FP 17/2
x 4915

Dear Mr. Lawson,

I have received a copy of your letter of 26 January 1987 to Ralph Jackson, our Press & Parliamentary Officer, declining to meet with ourselves concerning Budget representations. I must say I find this disappointing.

I can well appreciate your task in preparing for your Budget statement; the meetings involved and the numerous vested interests that annually clamour for you and your colleagues' attention. However, in support of our interest, I can only reiterate to you what has probably been voiced many times: we represent the largest organisation covering the many trades and professions of the self employed and small business sector. I understand that other business organisations - large and small - have either met with yourself or colleagues, or have dates pencilled in.

You rightly mention that we have put our views to David Trippier. However, as you will know from our representations, those specific taxation points are best explored in detail with the relevant Ministers and officials in the relevant Department - the Treasury. My hope is that you will bear these sentiments in mind and that our experts will have the opportunity to discuss our points with a senior Minister after the Budget, and equally hopefully, and circumstances permitting, that we can see yourself before next year's Budget.

Yours sincerely,

Brian A. Prime
National Chairman

BF 20/2

FROM THE OFFICE OF NATIONAL CHAIRMAN

National Federation of **Self Employed** and **Small Businesses** Limited

BRIAN A. PRIME
NORTH BAY HOUSE,
BORROW ROAD,
OULTON BROAD,
LOWESTOFT,
SUFFOLK, NR32 3PN.

TEL: 050 251 2489

CH/EXCHEQUER
REC. 16 FEB 1987
ACTION MR WALTERS
COPIES TO CST, FST, EST, MST
MR A. WILSON
MISS SINCLAIR
MR GUY, MR TYRIE
PS/IR, PS/C&E

Spoke to Doug Walters. DL 17/2

16/2

officials will be submitting advice D 16/2

No need. Just let me have A comments & draft non-committal reply ~

PP/1728

Rt. Hon Nigel Lawson MP
Chancellor of the Exechequer
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

11th February 1987

Dear Mr. Lawson,

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below

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Yours sincerely,

Brian A. Prime
National Chairman

3217/26

PRIVATE AND CONFIDENTIAL

FROM: P J CROPPER
DATE: 17 FEBRUARY 1987

CHANCELLOR

Thanks. I understand, but am not convinced. The proposed change is of considerable value even to your £300,000 widow. For example, the effective rate of tax goes down to 29% (from the 34% shown in yr table). The fact that the reduction is greater for those with less than £300,000 is not something I find objectionable. Nor do I find the possible (post-Budget) position 'unstable'. N

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Ross Goobey
Mr Tyrie

INHERITANCE TAX

In view of the shocking disarray in which the special advisers find themselves on IHT, may I briefly explain my position.

2. We have agreed that IHT affects only five per cent of the population. So it is no good pretending that we are dealing with "the ordinary people". We are dealing with that fortunate five per cent who have been able to accumulate - or inherit - some capital. I am concerned with the somewhat rarefied concept of fiscal fairness as among the members of that favoured group.

3. Consider how such people approach retirement. A couple, aged 60-65, probably have some form of pension entitlement. But by no means all will have built up anything like the theoretical civil servant's forty-eightieths. Or the Unilever man's sixty-eightieths. People in that world may not have bothered too much about accumulating capital because they will know their pension is virtually inflation proof.

4. I am more concerned with the person who had quite a difficult time financially in the nineteen fifties and sixties, has saved like mad in the past ten years, taken full advantage of S226 or a top hat policy, sold a small business, etc. And the value of his house will have sky rocketed.

5. How does he look at life? His assets, maybe, are:

House	£100,000
Lump sum	£ 50,000
Other securities, policies etc	£150,000
	£300,000

plus a pension that is alright now, but may not look so good in twenty years time.

6. This couple (I am not writing an autobiography) will look forward to ten years of active dahlia growing, then a few years of less active dahlia growing, and then ..... which is where the problems begin to pile up. Either one, or both of them, may then enter into a prolonged period in one of these dreaded establishments at Hastings, where they charge £200 a week for a broom cupboard, and where the DHSS offers no help until one is virtually destitute. That is when the money really starts to flood out.

7. It is the fear of an outflow of capital in old age proper that will deter this couple from making lifetime transfers to their offspring. They will hang on to their £300,000 for fear of needing it; they will not want to hand over their capital inter vivos and risk humiliating dependancy later on.

8. If now, however, you move up the scale of wealth to £1 million, £5 million, £50 million, you do not find a corresponding increase in anxiety. That same £300,000 would probably be enough to protect any couple from losing their independence in really old age. So we find that the people with the bigger fortunes really can make use of lifetime giving, ingenious Bahamian trusts and all the rest. They really can avoid IHT. It is the people at the bottom of the scale who will pay IHT.

9. It may not be an exaggeration to say that IHT is a voluntary tax above £300,000. Of course, there will always be premature deaths eg the man who is killed in a car crash before he has passed his wealth on. But for him there is life assurance: he can cover himself quite cheaply at that sort of age. The elderly cannot buy life assurance. So if one sets the thing out in black and white one may actually have an IHT scale like this:

Size of Estate £	Marginal Rate %	Cumulative Tax	Effective Rate %
1 - 71,000	Nil	Nil	Nil
100,000	35	8,950	9
200,000	45	49,000	25
300,000	55	101,150	34
500,000	55	101,150/	20
1,000,000	55	101,150/	10
5,000,000	55	101,150/	2
10,000,000	55	101,150/	1

/Tax assumed to fall on £300,000 at death.

It is the consideration of this that made me unenthusiastic about the effect of devoting £200 million to stretching out the lower rate bands by a few thousand pounds. It would not make very much difference to the right hand column of my table. As far as I can see, the only way of smoothing out the very severe practical effect of IHT in the range up to £½ million or so is to reduce the starting rate to 10 per cent and the top rate to 25 per cent, and to make the top rate bite at £½ million at least.

10. I have no objection, in principle, to death duties. There is something to be said for making each generation start from scratch and make its own way. On the other hand, I could argue a case for abolishing capital taxation entirely. But I do not think it is very easy to justify the present half way house. Some time in the next ten years we will either have to go onwards or backwards. The present position is unstable.

P J CROPPER

3217/28

pmp

CONFIDENTIAL

FROM: P J CROPPER
DATE: 17 FEBRUARY 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretar
PS/Economic Secretary
PS/Minister of State
Ms Boys
Miss Sinclair
Mr Corlett IR
PS/Customs

PAYROLL GIVING TO CHARITIES: BUDGET REPRESENTATIONS FROM CHARITIES AID FOUNDATION

I note the Minister of State's view that he is not in favour of a VAT remission for charity agencies. (see below)

2. It had, actually, occurred to me that this might have been a lollipop.

3. Now, however, I learn from Customs that there is some doubt whether there is any VAT liability in the first place. I think it is something we should keep a close eye on. I have asked Customs to let us know as soon as they have got the legal opinion they are waiting for.

PJC

P J CROPPER

Bp

FROM: S P Judge

DATE: 17 February 1987

PS/CUSTOMS AND EXCISE

cc PS/Chancellor
PS/Financial Secretary
PS/Economic Secretary
Ms Boys
Miss Sinclair
Mr Cropper
Mr Corlett - IR

PAYROLL GIVING TO CHARITIES: BUDGET REPRESENTATION FROM CHARITIES AID FOUNDATION

The Minister of State has seen the attached letter of 28 Janauary from Michael Brophy to the Chancellor, and has commented that he is not in favour of a VAT remission.

SPJ.

S P JUDGE
Private Secretary

HM TREASURY – MCU

REC'D. 29 JAN 1987

ACTION CE

MST.

11485/87

CHARITIES AID FOUNDATION
48 PEMBURY ROAD
TONBRIDGE, KENT TN9 2JD
TELEPHONE (0732) 356323
FAX (0732) 350570

The Rt Hon Nigel Lawson
Chancellor of the Exchequer
11, Downing Street
London SW1.

28th January 1987

Dear Mr Lawson

re: GIVE AS YOU EARN

We have come across serious donor resistance to the VAT to be added to the 5% service/administration charge which we plan to deduct from the individual's annual contribution.

5% is as low as we dare put our charge for disaggregating the employees instructions, checking validation, out-payments, etc.etc. Therefore we have to say to donors 5% + VAT, i.e. 5.75%. People don't like it and I think it may seriously reduce the take-up of the scheme.

This is not "a try on" or the usual "VAT-Reform Group" bleat, but rather a request to find out whether anything can be done because of the adverse effect it is certainly going to have on the take-up of the scheme.

There is one thought I have which need not open the charity flood gates over VAT. If The Revenue had recomputerised they would probably have been operating the scheme, and so we are in a sense an off-shoot of The Revenue.

Perhaps VAT need not apply to us "in locus" Revenue?

Yours sincerely

Michael Brophy

Michael Brophy
Director

We would appreciate an early indication even along the lines "NOT NO!"

MB/bn

c.c. Sir Angus Fraser
Customs & Excise

835/020

Moona. Pse thank

FROM: G MCKENZIE

DATE: 18 February 1987

The matrix table now covers both this and the first two summaries.

20/2/87

1. MR WALTERS
2. MISS SINCLAIR 23/2
3. CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr A Wilson
Mr Monck
Mr Cassell
Mr Scholar
Mr Culpin
Miss O'Mara
Mr Haigh
Mr Romanski
Miss Wallis
Mr Cropper
Mr Ross Goobey
Mr Tyrie
PS/IR
PS/C&E
Mr Bone C&E

SUMMARY OF MAIN BUDGET REPRESENTATIONS

Following Mr Walters' minute of 20 January I now attach the third and final summary of the main Budget representations received to date. I also attach an update of the accompanying matrix table.

G McKenzie

G MCKENZIE

835/013

BR 87(3)

BUDGET 1987 REPRESENTATIONS - THIRD EDITION

Betting Office Licensees Association Limited	28 November
National Federation for Self Employed and Small Businesses	15 December
British Indigenous Technology Group (BRIT)	18 December
The Stock Exchange	23 December
Freight Transport Association	5 January
British Greyhound Racing Board	7 January
IOD	9 January
Road Haulage Association	14 January
Association of Independent Businesses	15 January
National Licensed Victuallers Association	22 January
Association of British Chambers of Commerce	22 January
Tobacco Advisory Council	28 January
TUC	4 February
RAC	12 February

NB. Copies of individual representations can be obtained from FP Division (Miss S Wallis x4916)

Betting Office Licensees Association Limited

On-Course Betting Duty

Support for abolition only if Customs continue to exercise control.

Illegal Betting

Believe that any increase in duty would trigger upsurge in illegal activity, but that significant reduction in off-course duty rate would curb illegal betting.

Sunday Racing

Not opposed to this, provided off-course betting allowed.

Hedging

Consider present rules on hedging unfair to off-course bookmakers.

National Federation for Self Employed and Small Businesses

- Legislation to facilitate establishment of non-incorporated self administered pension plans analogous to the schemes currently operated by small companies

- Re-introduce 100% capital allowances for small business

- 25% writing down allowance should be on straightline basis

- Introduce small discount on prompt payment of VAT, PAYE and NIC's

- Abolition of CGT or as an alternative a number of proposals including: introduce short-term Speculative Gains Tax applying to gains made within a twelve month period; offset capital losses against any capital gain in previous three years of assessment; and relief for cases of retirement on grounds of ill health.

- Mitigate the VAT penalties applicable under the present Finance Act S14, S15 and S17.

- Extend training allowances for apprenticeship schemes of two or three years duration

- Increase in death grant

British Indigenous Technology Group (BRIT)

Allow all "pre Annex B" expenditure against existing revenues.

The Stock Exchange

Would like aboltiion of CGT but recognise may not be feasible. But would like to see stamp duty abolished. Other main tax points are:

- If stamp duty retained, reduce ADR duty to level which neither penalises firms seeking access to overseas markets nor diminishes the attractiveness of dealing in London

- Transfer stamp duty should apply tooverseas residents' business in securities

- Marginal income tax rates should be adjusted to retain competitiveness with other financial markets.

- Support Government's actions on profit sharing schemes but maximum levels for employee share-ownership schemes should rise in line with inflation each year.

- Also include a number of technical proposals on PEP schemes, traded options, stock borrowing, single property investment schemes, VAT on agency business, stamp duty reserve tax.

Freight Transport Association

General observations on the need for more and better roads (need for enhanced spending on infrastructure). Tax proposals are:

- Reduce VED and fuel duty to allow competition with overseas operators on equal terms

- Review Freight Facilities Grants Scheme

- Double income threshold above which employees are liable to be taxed for the use of a company car

- Abolish Special Car Tax

- Relax benefit-in-kind scales for larger company cars or allow diesel vehicles special dispensation

- Company cars should be VAT deductible

- Abolish guarantees for VAT on imported goods and for community transit movement

- Introduce 50 per cent capital allowance in the first year and 30 per cent reducing balance for subsequent years.

British Greyhound Racing Board

Abolish on-course general betting duty on the greyhound totaliser.

IOD

Top priority of spending reductions. Give tax cuts higher priority than PSBR (excessively austere and could be relaxed by £1½ billion). Make tax cuts with a total first year net cost of £2 billion (ie allowing for secondary and supply side effects). Measures include:

- Cut income tax basic rate by 3p and higher rates by 10p

- Abolish Inheritance Tax or failing that exempt business and agricultural assets; cut rates by 5p for every 1p off basic rate IT; and restore parity between assets held in trust and those held absolutely

- Abolish Capital Gains Tax or failing that exempt pre-1982 assets held for ten years and restore 1965 differential between CGT and IT

- Give worthwhile tax relief for profit-related pay

- Introduce transferable income rather than transferable allowances for spouses

- Make permanent health insurance premiums deductible

- VAT: no increase in rate or coverage and maintain pressure on EC to raise threshold to £50,000

- Partial not full revalorisation of excise duties

- Number of long term aims affecting NIC and Corporation Tax.

Road Haulage Association

Support the CBI proposals on general taxation, including means of improving incentives at work and measures aimed at increasing job prospects.

- Reduce VED on commercial goods vehicles to give closer comparison with rates in other EC countries

- Reduce or at least standstill in duty on fuel

- 100% capital allowances on first £50,000 of capital spending by small business.

Association of Independent Businesses

Number of recommendations including

- Give 100% capital allowances for the first £50,000 of capital expenditure
- Retain first year allowances at 50% on plant and machinery indefinitely
- Re-introduce stock relief for stocks in excess of £50,000 but below £500,000
- Combine employees' National Insurance Contributions with income tax
- Allow employees, directors and their families to invest in their own companies through the Business Expansion Scheme
- Set business rates nationally as a Uniform Business Rate
- Increase the VAT registration threshold to £50,000
- Allow accounting for VAT on the basis of cash paid and received
- Restore the Postponed Accounting System which defers VAT on imports
- Reduce the impact of Capital Gains Tax and Inheritance Tax
- Bring down labour costs by a 1% reduction in the employer's National Insurance Contribution
- Restore the Upper Earnings Limit on employer's National Insurance Contributions
- Lower the tax paid on pension scheme surpluses in the case of small companies.

National Licensed Victuallers Association

- no increase in duty on alcohol
- no increase in rate of VAT and licence duty on automatic machines with prizes
- VAT on repairs to tied houses should be reclaimable.

Association of British Chambers of Commerce

General Measures

- Further addition to spending on the infrastructure
- Extend the 5% employee National Insurance contribution rate much further up the income scale towards average earnings (rather than any change in IT rates or thresholds)
- Tax or, more particularly, National Insurance Contribution relief for individuals participating in company profit-sharing schemes
- Re-introduce the industrial building allowance in areas designated under the Inner Urban Areas Act.

Tax Measures

- Increase VAT threshold to £50,000
- Increase Corporation Tax upper limit in line with inflation since 1983
- Support 100% capital allowances on first £25,000 of capital spending on plant and machinery
- Extend enterprise allowance further and reduce the qualifying period of unemployment from 8 to 6 weeks

- Reduce loan guarantee scheme premium to 2%

- Abolish CGT.

Tobacco Advisory Council

- Nil duty increase for cigarettes and hand-rolling tobacco

- Nil duty increase on cigars and pipe tobaccos.

TUC

General objective of reducing unemployment by one million in two years. Submission covers spending proposals (public investment, public services and industry), an employment strategy and the following tax and benefit proposals:

- Restore investment income surcharge

- Reduce CGT threshold in line with Income Tax

- Abolish CGT relief for gifts

- Abolition of exemptions of life assurance policies

- Introduce Inheritance Tax on lifetime transfers

- Abolish MIR at higher rates

- Increase ACT as a share of total company taxation

- Remove BES tax relief

- Increase in child benefit (£3/week), one parent family benefit (£2/week) and invalid care allowance (£8/week)

- Extension of long term supplementary benefit to all claimants after one year; increase average wage limit on Community Programme in line with increase in earnings; increase in YTS allowance in line with inflation

- increase single pensions by £5/week and for married couples by £8/week.

RAC

- Freeze on current motor tax rates

- Retain VED

- Abolish estuarial toll charges

- Increase spending on new construction and maintenance of roads .

	Betting Office Licensees Association	NFSE	Freight Transport Association	British Greyhound Racing Board
PERSONAL TAX			Double income tax threshold	
BENEFITS IN KIND			Relax benefit in kind scale charges for larger cars / allow diesel vehicles special dispensation.	
STAMP DUTY				
CGT		Abolish		
IT (Inheritance Tax				
CT				
ACT				
CAPITAL ALLOWANCES		1. Re-introduce 100% allowance for small business 2. 25% writing down allowance should be on straightline basis	Introduce 50% capital allowance in first year and 30% reducing balance for subsequent years	
BES				
SHARE INCENTIVES				
VAT		Mitigate the VAT penalties applicable under present Finance Act	Abolish guarantees for VAT on imported goods Company cars should be VAT deductible	
CAR TAX			Abolish	
EXCISE DUTY			Reduce fuel duty	
BETTING AND GAMING	1. Support abolition of on-course betting duty on greyhound totaliser 2. Support sunday racing provided off-course betting allowed			Support abolition of on-course betting duty
VED			Reduce duties	

	The Stock Exchange	RAC	National Licensed Victuallers Association
PERSONAL TAX	Adjust marginal rates to retain competitiveness		
BENEFITS IN KIND			
STAMP DUTY	Abolish. Alternatively: Reduce ADR duty. Transfer stamp duty should apply to overseas residents' business in securities		
CGT	Abolish		
IT (Inheritance Tax			
CT			
ACT			
CAPITAL ALLOWANCES			
BES			
SHARE INCENTIVES			
VAT			VAT on repairs to tied houses should be reclaimable
CAR TAX			
EXCISE DUTY			No increase in duty on alcohol
BETTING AND GAMING			
VED		Retain and freeze motor tax rates	

	IOD	Road Haulage Association	Association of Independent Businesses
PERSONAL TAX	1. Cut income tax basic rate by 3p and higher rates by 10p 2. Give worthwhile tax relief for profit related pay 3. Introduce transferable income not transferable allowances	Support CBI proposals, on general taxation	Combine employees NICS with income tax
BENEFITS IN KIND			
STAMP DUTY			
CGT	Abolish		Reduce impact
IT (Inheritance Tax	Abolish		Reduce impact
CT			
ACT			
CAPITAL ALLOWANCES		100% allowances for first £50,000 of capital expenditure	1. 100% allowances for first £50,000 of capital expenditure 2. Retain first year allowances at 50% on plant and machinery indefinitely
BES			Allow employees directors etc to invest in own company through BES
SHARE INCENTIVES			
VAT	No increase in rate, Raise threshold to £50,000		increase registration threshold to £50,000 accounting on cash paid and received
CAR TAX			
EXCISE DUTY	Partial revalorisation only	Reduce duty on fuel	
BETTING AND GAMING			
VED		Reduce duty on commercial goods vehicles	

	ABCC	TAC	TUC
PERSONAL TAX	Extend 5% NIC rate further up scale towards average earnings		Restore investment income surcharge
BENEFITS IN KIND			
STAMP DUTY			
CGT	Abolish CGT		1. Reduce in line with income tax 2. Abolish relief for gifts
IT (Inheritance Tax			Introduce inheritance tax on lifetime transfers
CT	Increase upper limit		
ACT			Increase as share of total company taxation
CAPITAL ALLOWANCES	100% allowance on first £25,000 capital spending on plant and machinery		
BES			Remove tax relief
SHARE INCENTIVES			
VAT	Increase threshold to £50,000		
CAR TAX			
EXCISE DUTY		Nil duty for cigarettes and hand-rolling tobacco and cigars and pipe tobacco	
BETTING AND GAMING			
MIR			Abolish at higher rates

	Managerial Professional	A.A.	S.W.A
PERSONAL TAX	(i) Reduce basic rate to 27 per cent (ii) Fully index all allowances (iii) Increase tax allowance for married couple to £4670 and reduce wifes earned income allowance to £1320		
BENEFITS IN KIND			
STAMP DUTY	Increase exemption level on house purchase to £50,000 with eventual abolition		
CGT			
IT (Inheritance Tax			
CT			Concern that whisky industry experiences a much higher rate than all other industrial and commercial enterprises
ACT			
CAPITAL ALLOWANCES			
BES			
SHARE INCENTIVES			
VAT	(i) increase VAT to 30 per cent on specified luxury goods (ii) impose additional VAT charge (15%) on all advertising on TV and in public places		
VED		Against incorporation of VED into petrol duty	
EXCISE DUTY	(i) increase duty on tobacco by 50 per cent (ii) increase duty on beer by 4p/pint, wine by 20p/pint and spirits 200p/bottle	Petrol duty should be held at present level	(i) Whisky faces excise duty twice as much as beer and wine (ii) more rapid movement toward system of drinks taxation with the same rate of tax per degree of alcoholic strength (iii) increase period of duty deferment from 4 to 8 weeks
BETTING AND GAMING	Institute an additional tax of 30 per cent on all forms of gaming and gambling		

3593/034

	General Council for British Shipping	TUC (Technical)	CBI
PERSONAL TAX		Reverse 1984 measure withdrawing relief on overseas personal earnings	5 per cent real increase in tax allowance
BENEFITS IN KIND		(i) Increase thresholds for benefits in kind to £10,000 with subsequent upratings in line with RPI (ii) increase exemption limits for TU provident benefits	
CGT			
IT (Inheritance Tax			exclusion of business assets from IT
CT			
ACT			
CAPITAL ALLOWANCES	50% allowance for new and secondhand ships		100 per cent capital allowances to benefit small firms
BES	British ship should be part of UK for purposes of BES		Tax relief to "connected persons" under BES
SHARE INCENTIVES			
VAT			A more flexible system of VAT penalties and easier recovery of VAT on bad debts
CAR TAX			
EXCISE DUTY			
BETTING AND GAMING			
PENSION FUNDS		Increase surplus limit to 10%	

3593/035

	Unquoted Companies Group	Brewers Society	British Venture Capital Association
PERSONAL TAX			
BENEFITS IN KIND			
STAMP DUTY			
CGT	(i) exempt gains after holding period of not more than 5 years (ii) reduce rate to not more than 20 per cent		Measures to encourage small businesses particularly entrepreneur incentives
IT (Inheritance Tax	(i) business property relief increase to 100 per cent (ii) reduce period of aggregation to not more than 3 years (iii) reduce top rate to 30 per cent as quickly as possible		
CT			
ACT			
CAPITAL ALLOWANCES			
BES			
SHARE INCENTIVES	(i) remove restriction on parent close companies from setting up schemes using shares of subsidiary companies (ii) replace S79FA 1972 with provision specifically designed to counter avoidance of abusive transactions (iii) introduce a new Revenue approved code for share equivalent schemes		
VAT			
CAR TAX			
EXCISE DUTY		No increase in beer duty	
BETTING AND GAMING			

593/036

JOCKEY CLUB

PERSONAL TAX	
BENEFITS IN KIND	
STAMP DUTY	
CGT	
IT (Inheritance Tax	
CT	
ACT	
CAPITAL ALLOWANCES	
BES	
SHARE INCENTIVES	
VAT	
CAR TAX	
EXCISE DUTY	
BETTING AND GAMING	Abolition of on-course betting duty

3598/056

	Country Landowners Association	British Retailers Association: Wines and Spirits Group	Scottish Landowners Federation
PERSONAL TAX	Exempt farmers from having to show a profit every six years to obtain full tax relief for any losses suffered. Simplify present PAYE procedures for small employers .		Relaxation of hobby farming rules.
BENEFITS IN KIND			
STAMP DUTY			Standardisation with abolition in due course.
CGT	Remove CGT charge on inflationary gains arising pre-March 1982 by bringing CGT base date forward from 1965.		Base date for computation of gains should be advanced to 1982. Number of small points on release for landlords,small part disposals and annual exemptions.
IT (Inheritance Tax)			Strong reservations at introduction of new tax without exposure through a Government paper. Clarification needed of "gifts with reservation" provisions. Look again at coverage of "potentially exempt transfers". Three year retention period required for agricultural or business property relief. Increase thresholds and wider rate bands.
CT			
ACT			
CAPITAL ALLOWANCES			Assets used in commercial letting of holiday cottages should attract business property relief.
BES			
SHARE INCENTIVES			
VAT		Harmonisation of VAT/duty deferment periods for imported goods.	Recovery of VAT input tax.
CAR TAX			
EXCISE DUTY		Standstill recommended except for sparkling wines which should be harmonised with still wines (inter alia to simplify administration). Extend period of duty deferment by an additional 4 weeks.	
BETTING AND GAMING			

5598/037 ?

	National Farmers Union	International Chamber of Commerce	Institute of Chartered Accountants	British Property Federation
PERSONAL TAX	Concern about the operation of the "hobby farmer" rules.			
BENEFITS IN KIND				
STAMP DUTY		Remove on all share transactions; if not reduce ADR to 1 per cent		
CGT	Gains from forced sale of agricultural land to be allowed against trading losses	Call for action on: group treatment; roll-over relief in respect of share disposals; capital losses on loans to group companies which do not constitute "debt on a security"; capital injected by way of capital contribution; liquidation of an overseas subsidiary; re-organisation of overseas groups.		Introduction of roll-over relief where receipts from sale of property are in-sufficient to purchase a replacement. Advance of base date for computation of gains to 1982.
CT				
IT (Inheritance Tax)				
ACT		Liberalisation of offsetting of ACT		Offset against CT liability without restriction and 6 year carry back
CAPITAL ALLOWANCES	100 per cent capital allowance on first 10k of investment in plant and machinery in a year. 25 per cent initial allowance on plant and machinery purchases. 25 per cent writing-down allowance to apply on a straight line basis.			
BES				
SHARE INCENTIVES			Need for general simplification and rationalisation. In addition, general camplaints about time limits, professional privilege and use of regulations	
VAT		Adoption of article 13c option by UK Government in respect of exempt supplies to taxable enterprises.	Reinstatement of Clause 23 of the 1985 Finance Act	
CAR TAX				
EXCISE DUTIES				
BETTING AND GAMING				

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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88

From the Minister of State
for Industry and Information Technology

RT HON GEOFFREY PATTIE MP

24 FEB 1987

MR Driscoll IR
PPS CST MST EST
Sir P. Middleton
MR Monck MR Burgner
MR Scholar Miss Sinclair
MR Ross Goobey
MR Cropper PS/IR

Rt Hon Norman Lamont MP
Financial Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

24 February 1987

Dear Norman

I have received the attached letter from Matthew Bullock, Corporate Finance Director of Barclays Bank, suggesting that the scientific research allowance (SRA) should be available to lessors in respect of expenditure on assets used for scientific research by lessees. I believe that the Equipment Leasing Association have made a similar proposal in their Budget representations.

I have sent Matthew Bullock a simple acknowledgement now that we are in the pre-Budget period. However, I thought it right to bring the letter to your attention, as I have some sympathy with the proposal.

In principle, I find it difficult to see why scientific equipment used by a trader should be discriminated against, purely because it is leased. When 100% first year plant and machinery allowances applied, it was accepted that leased plant and machinery should qualify for first year allowances if, broadly speaking, the lessee would have qualified for first year allowances if he had incurred the expenditure himself. There would seem to be considerable logic in having similar rules for the scientific research allowance.

FE5/FE5AAW

999.5

I appreciate that it would not be entirely straightforward for the Revenue, or lessors, to apply legislation where relief was in part dependent on how a third party used the relevant asset. But this is not an entirely novel problem. The pre 1984 plant and machinery leasing legislation was dependent on the users' trade, as is the continuing legislation for determining industrial building allowances due to a lessor.

I realise that it is rather late in the day to make Budget representations for this year, but I shall want to consider returning to the point next year. In the meantime, I wonder whether it would be an appropriate issue for the Revenue to consider in their review, for E(RD), of R & D tax incentives.

Yours ever

GEOFFREY PATTIE

FE5/FE5AAW

999-49

BARCLAYS

BARCLAYS BANK PLC
Corporate Division
54 Lombard Street, London EC3P 3AH
Telephone: 01-626 1567

G Pattie Esq MP PC
Minister of State for Industry
and Information Technology
1 Victoria Street
LONDON SW1H OET

Your Ref:
Our Ref:
Ext. No:

4th February 1987

Dear Minister

SCIENTIFIC RESEARCH ALLOWANCE (SRA's)

In our continuing effort to support R&D based companies the Bank has come up against an anomaly that exists in the Capital Allowances Act 1968 which appears to inhibit our ability to assist companies particularly in the early stages when they may not have taxable income. I am referring to Sections 90-95 covering Scientific Research Allowances, and the fact that lessors are unable to claim any allowances where they have made finance available to customers for qualifying expenditure. Not infrequently we find cases where companies that have substantial start-up losses carried forward wish to buy scientific equipment to develop their products but are unable to obtain the benefit from any of the allowances due to the lack of taxable profits.

We have in fact developed specifically for such early stage companies a product called Technoleasing which is being piloted in a number of our designated High Technolgy Branches. If this pilot proves to be satisfactory and we find an adequate uptake from customers, then we will consider launching it across the designated network of some sixty branches in due course.

I know that you are a supporter of private sector financing for R&D expenditure as indeed is the Bank. It therefore occurred to us that if lessors were eligible in the same way as outright purchasers for SRAs, this sort of leasing product would enable private sector funds to stimulate expenditure in a particularly important part of the economy.

I hope you will agree that the change will be a step in the right direction and you will feel able to encourage your colleagues to adopt the necessary amendments in the forthcoming Budget.

I look forward to hearing from you.

Yours sincerely

Matthew Bullock

M P D Bullock
Corporate Finance Director

From the Minister of State
for Industry and Information Technology

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
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24 FEB 1987

RT HON GEOFFREY PATTIE MP

M P D Bullock Esq
Corporate Finance Director
Barclays Bank plc
Corporate Division
54 Lombard Street
LONDON
EC3P 3AH

24 February 1987

Dear Matthew

Thank you for your letter of 4 February suggesting that the scientific research allowance should be available to lessors in respect of expenditure on assets used for scientific research by lessees.

I understand the point you make, but you will appreciate that I cannot elaborate now that we are in the pre-Budget period.

I was also interested to learn of your Technoleasing project. It sounds an interesting idea and I would welcome hearing in due course how it fares.

Thank you again for writing.

Yours sincerely

Geoffrey Pattie

GEOFFREY PATTIE

FE5/FE5AAX

835/016

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

B A Prime Esq
National Chairman
National Federation of Self Employed
and Small Businesses Limited
Northbay House
Borrow Road
Oulton Broad
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Suffolk
NR32 3PN

24 February 1987

Dear Mr Prime

Thank you for your letter of 11 February which asked Treasury Ministers to reconsider their decision not to meet a delegation from the National Federation of Self Employed and Small Businesses.

As I pointed out in my letter of 26 January, Treasury Ministers try to meet as many representative bodies as possible before each Budget. But inevitably we have to disappoint a number of large and not so large organisations who request a meeting every year.

You and most of the other Small Business organisations have already had a useful meeting with David Trippier at the Department of Employment, and as I explained in my earlier letter, the results of those discussions will be conveyed to me. In the circumstances I am afraid that I must reiterate the decision in my letter of 26 January and decline your request for a meeting with Treasury Ministers.

Yours ever

Nigel Lawson

NIGEL LAWSON

2-29a

BR(87)1

Budget 1987 Representations - First Edition

Country Landowners Association - 8-8-86

British Retailers Association: Wines and Spirits Group - 25-9-86

Scottish Landowners Federation - 9-10-86

CBI - 10-10-86

The International Chamber of Commerce - 21-10-86

The Institute of Chartered Accountants - 23-10-86

British Property Federation - 27-10-86

The National Farmers Union - 29-10-86

Country Landowners Association

Three main concerns:

Capital Gains Tax

remove CGT charge on inflationary gains arising pre-March 1982 by bringing CGT base date forward from 1965.

Income Tax

exempt farmers from having to show a profit every six years to obtain full tax relief for any losses suffered.

Pay As You Earn

simplify present PAYE procedures for small employers.

Other detailed representations in a technical annex cover capital allowances, income tax, corporation tax, capital gains tax, inheritance tax, national insurance and VAT.

Representation discussed with the Financial Secretary on 15 October.

The British Retailers Association: Wines and Spirits Group

Four areas of concern:

Duty rates

standstill recommended except for sparkling wines which should be harmonised with still wines (inter alia to simplify administration).

Duty deferment

extension by an additional four weeks.

Harmonisation of VAT/duty deferment periods for imported goods

Bank guarantees

remove requirement for bank guarantees for duty and VAT deferments.

Scottish Landowners Federation

Principal concerns are effects on landowners of inheritance tax treatment of trusts and damage which present system of CGT inflicts on rural economy.

Detailed representations covering:

Inheritance tax

strong reservations at introduction of new tax without exposure through a Government paper;

clarification needed of "gifts with reservation" provisions;

look again at coverage of "potentially exempt transfers";

three year retention period required for agricultural or business property relief;

increase thresholds and widen rate bands.

Capital gains tax

base date for computation of gains should be advanced to 1982;

number of small points on release for landlords, small part disposals and annual exemptions.

Other detailed representations on income tax (mainly relaxation of "hobby farming" rules), capital allowances (agricultural buildings), furnished holiday lets (for IT purposes), assets used in commercial letting of holiday cottages should attract business property relief, VAT (recovery of VAT input tax), stamp duty (standardisation with abolition in due course) and milk quotas (system to remain flexibile whereby landowner would have option ot treating payments and receipts as either capital or income).

The SLF will meet the Financial Secretary on 9 December.

Confederation of British Industry: Technical representations

For completeness, index which CBI produced for their technical representations is attached. The representations comprises "suggestions for dealing with aspects of the UK tax system which hinder British industry in competition with foreign businesses and removing identified restraints on enterprise and employee participation in profit sharing and share option schemes. They also identify areas where unnecessary and onerous compliance and administrative burdens are imposed on business by the UK tax legislation, and where the tax system itself is out of line with the realities of modern commercial life."

None of the representations seem to merit special highlighting though Ministers will recognise some old chestnuts. The CBI's major points of concern will, of course, be included in their main representations.

The International Chamber of Commerce

Representations are "directed primarily at the international scene with the objective of providing British industry with a competitive edge, or at the very least a level playing field, on which to compete with the rest of the world".

Unitary taxation

need for Government to maintain pressure to ensure companies are taxed on water's edge basis

Exchange gains and losses

need for tax relief in respect of losses on currency loans.

Capital gains tax

call for action on: group treatment; roll-over relief in respect of share disposals; capital losses on loans to group companies which do not constitute "debt on a security"; capital injected by way of capital contribution; liquidation of an overseas subsidiary; reorganisation of overseas groups.

Section 482, ICTA 1970

repeal.

Advance corporation tax

liberalisation of offsetting of ACT.

Double taxation relief

improving effectiveness.

Stamp duty

remove on all share transactions; if not reduce ADR duty to 1 per cent.

Other technical points cover non-domiciled employees, VAT (adoption of Article 13C option by UK Government in respect of exempt supplies to taxable enterprises) and support for OECD/Council of Europe draft multilateral convention on mutual administrative assistance in tax matters.

The Institute of Chartered Accountants

General need for rethink on fundamental structure of tax legislation and greater clarity in Inland Revenue's approach. Specific points on:

VAT

reinstatement of clause 23 of the 1985 Finance Act.

Exchange rate fluctuations

requirement for statutory basis for tax treatment in this area and in particular relief for exchange losses on borrowings in respect of which tax relief is available for the interest.

Shareownership by employees.

need for general simplification and rationalisation.

In addition, general complaints about time limits, professional privilege and use of regulations.

The British Property Federation

Three main runners:

Capital gains tax

introduction of roll-over relief where receipts from sale of property are insufficient to purchase a replacement;

advance of base date for computation of gains to 1982.

Pre-development expenditure

introduction of tax deductability.

Loans for refurbishment of accommodation to rent

tax relief to be granted on loans made to landlords for repair of residential property.

Other issues raised include company taxation (in particular Schedule A), groups (group and consortium relief), ACT (offset against CT liability without restriction and 6 year carry back), residential property and capital allowances (treatment of insurance proceeds on industrial buildings).

The National Farmers Union

28 individual measures as titled on attached list with particular attention drawn to introduction of new incentives to help investment in machinery and plant particularly for smaller businesses. Highlighted:

Capital allowances

100 per cent capital allowance on first £10k of investment in plant and machinery in a year;

25 per cent initial allowance on plant and machinery purchases;

25 per cent writing-down allowance to apply on a straight line basis.

Inheritance tax

need to reduce the burden.

Capital gains tax

gains from forced sale of agricultural land to be allowed against trading losses.

Income tax

concern about the operation of the "hobby farmer" rules.

Milk quotas

should qualify for CGT roll-over relief.

CBI TECHNICAL BUDGET REPRESENTATIONS 1987

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Page

NATIONAL FARMERS UNION

THE 1987 BUDGET

TECHNICAL REPRESENTATIONS OF THE THREE UNITED KINGDOM FARMERS' UNIONS

1. Capital Gains Tax: General
2. Capital Gains Tax: Indexation and Rollover Relief
3. Capital Gains Tax: Retirement Relief
4. Capital Gains Tax and Income Tax: Compulsory Purchase of Land
5. Capital Gains Tax: Compensation Payments for Conservation Measures
6. Capital Allowances: Balancing Charges on Plant and Machinery
7. Capital Allowances: Agricultural Buildings
8. Inheritance Tax: Scale Bands and Rates
9. Inheritance Tax: Annual and Wedding Gifts Exemptions
10. Inheritance Tax: Intensive Livestock Buildings
11. Inheritance Tax: The Problem of Funding
12. Inheritance Tax: Valuation of Farm Tenancies
13. Inheritance Tax: Agricultural Relief
14. Inheritance Tax: Trust Property
15. Forestry
16. Landlord and Tenant System
17. Tenant Farmers
18. Farming Companies
19. VAT Penalties
20. VAT on Conversion of Buildings
21. Cost of Appeals
22. Interest on Overpaid Tax
23. Excise Duties on Beer and Cider
24. Excise Duty on Road Fuel
25. National Insurance Contributions
26. Agricultural Co-operatives
27. Furnished Holiday Lettings
28. Private Medical Subscriptions

	Country Landowners Association	British Retailers Association: Wines and Spirits Group	Scottish Landowners Federation
PERSONAL TAX	Exempt farmers from having to show a profit every six years to obtain full tax relief for any losses suffered. Simplify present PAYE procedures for small employers .		Relaxation of hobby farming rules.
BENEFITS IN KIND			
STAMP DUTY			Standardisation with abolition in due course.
CGT	Remove CGT charge on inflationary gains arising pre-March 1982 by bringing CGT base date forward from 1965.		Base date for computation of gains should be advanced to 1982. Number of small points on release for landlords, small part disposals and annual exemptions.
IT (Inheritance Tax)			Strong reservations at introduction of new tax without exposure through a Government paper. Clarification needed of "gifts with reservation" provisions. Look again at coverage of "potentially exempt transfers". Three year retention period required for agricultural or business property relief. Increase thresholds and wider rate bands.
CT			
ACT			
CAPITAL ALLOWANCES			Assets used in commercial letting of holiday cottages should attract business property relief.
BES			
SHARE INCENTIVES			
VAT		Harmonisation of VAT/duty deferment periods for imported goods.	Recovery of VAT input tax.
CAR TAX			
EXCISE DUTY		Standstill recommended except for sparkling wines which should be harmonised with still wines (inter alia to simplify administration). Extend period of duty deferment by an additional 4 weeks.	
BETTING AND GAMING			

	National Farmers Union	International Chamber of Commerce	Institute of Chartered Accountants	British Property Federation
PERSONAL TAX	Concern about the operation of the "hobby farmer" rules.			
BENEFITS IN KIND				
STAMP DUTY		Remove on all share transactions; if not reduce ADR to 1 per cent		
CGT	Gains from forced sale of agricultural land to be allowed against trading losses	Call for action on: group treatment; roll-over relief in respect of share disposals; capital losses on loans to group companies which do not constitute "debt on a security"; capital injected by way of capital contribution; liquidation of an overseas subsidiary; re-organisation of overseas groups.		Introduction of roll-over relief where receipts from sale of property are insufficient to purchase a replacement. Advance of base date for computation of gains to 1982.
CT				
IT (Inheritance Tax)				
ACT		Liberalisation of offsetting of ACT		Offset against CT liability without restriction and 6 year carry back
CAPITAL ALLOWANCES	100 per cent capital allowance on first 10k of investment in plant and machinery in a year. 25 per cent initial allowance on plant and machinery purchases. 25 per cent writing-down allowance to apply on a straight line basis.			
BES				
SHARE INCENTIVES			Need for general simplification and rationalisation. In addition, general camplaints about time limits, professional privilege and use of regulations	
VAT		Adoption of article 13c option by UK Government in respect of exempt supplies to taxable enterprises.	Reinstatement of Clause 23 of the 1985 Finance Act	
CAR TAX				
EXCISE DUTIES				
BETTING AND GAMING				

3592/057

BR(87)2

Budget 1987 Representations - Second Edition

Managerial, Professional and Staff Liaison Group - 30-10-86

The Institute of Taxation - 31-10-86

The Automobile Association - 4-11-86 and 4-12-86

The Institute of Chartered Accountants of Scotland - 6-11-86

The Scotch Whisky Association - 19-11-86

The Jockey Club - 25-11-86

British Venture Capital Association - 28-11-86

General Council of British Shipping - 1-12-86

TUC Technical Representation - 2-12-86

CBI - 5-12-86

The Unquoted Companies Group - 12-12-86

The Brewers Society - 15-12-86

3592/058

Managerial, Professional and Staff Liaison Group

Generally favour a shift from direct to indirect taxation. Hence:

Income Tax

- reduce basic rate to 27 per cent;
- fully index all allowances;
- increase tax allowance for married couple to £4670 (2 single allowances) and reduce wife's earned income allowance to £1320.

Duty Rates

- increase duty on tobacco by 50 per cent;
- increase duty on beer by 4 pence per pint, wine by 20 pence per bottle and spirits by 200 pence per bottle.

VAT

Increase rate from 15 to 30 per cent on specified luxury goods; impose additional VAT charge of 15 per cent on all advertising on TV and in public places.

Gaming

institute an additional tax of 30 per cent on all forms of gaming and gambling.

Privatisation Proceeds

should be used to improve the nation's infrastructure, not for consumer spending, and a Royal Commission should be appointed to make recommendations on how proceeds should be best utilized.

Other

- private provision for retirement should be encouraged;
- increase the mortgage interest relief threshold to £60,000;
- increase exemption level for stamp duty on house purchase to £50,000 with eventual abolition.

The Institute of Taxation

Major concern is "the way in which so much detailed technical legislation has been introduced with little if any real opportunity for comment". Review required of the methods by which taxation laws are enacted. Concern about "the increasing use of delegated legislation".

Other representations on individual taxes are detailed and technical. These cover income tax and corporation tax, capital gains tax (principally concern about undue restriction of retirement relief to family companies), stamp duty (consolidation award provisions relating to stamp and capital duties sought), inheritance tax and VAT.

The Automobile Association

General concern that level of taxation on motorist should not be increased.

Petrol Duty

should be held at its present level

Vehicle Excise Duty

against incorporation of VED into petrol duty.

Infrastructure

higher proportion of revenue received from motorists should be hypothecated to investment in road infrastructure.

The Institute of Chartered Accountants of Scotland

Main concern is increasing complexity of tax legislation. Other major concerns are:

Mining Restoration Costs;
provisions for warranty and damages (lack of uniformity of treatment);

Time Limits: Standardisation at 6 years for claiming all types of reliefs;

Loss Relief;

(i) Surplus capital allowances should be relievable against future profits of a new company's trade.

(ii) S172 ICTA should be amended to allow surplus capital allowances to be used to create or augment a qualifying loss.

Farming Losses

section 180 ICTA 1970 is unnecessarily restrictive;

Inheritance Tax

potential double charges and also effects on associated operations;

Other Concerns (below given mainly subject headings only):

- entertaining expenditure (parity of treatment between a company and an unincorporated business);
- dependent relative reliefs (current legislation discriminates unfairly against male parents);
- widows bereavement allowance;
- disincorporatation;
- recovery of CGT from trustees;
- tax treatment of interest;
- ACT change of rate;
- method of charging non-residents (amend s78 TMA 1970 to avoid discouragement of use of UK resident investment managers by certain offshore funds);
- patent purchase from an associated company;
- sterling commercial paper (introduce legislation or a statement of practice re tax relief availability on the interest element in the issue of sterling commercial paper).

Scotch Whisky Association

General concern that Scotch Whisky Industry:

- experiences a much higher effective rate of corporation tax than all other industrial and commercial enterprises;
- faces excise duty almost twice the rate of beer and wine on a per degree of alcohol basis; and
- contends with a system of duty deferrment which penalises the industry and is not consistent with practice in other member states of the European Community.

Recommend:

Statutory Maturation Allowance

for all stocks of maturing scotch whisky distilled in the previous 3 years, thus reflecting the statutory requirement to mature scotch whisky for that minimum period;

Drink Duty

more rapid movement toward system of drinks taxation with the same rate of tax per degree of alcoholic strength in line with principle of a fiscal neutrality;

as interim measure, to reduce anomolies in present system of drinks taxation of mixed drinks, introduce new band for all mixed drinks below 15 per cent alcohol volume.

Duty Deferrment

increase period from 4 to 8 weeks.

The Jockey Club

Abolition of the 4 per cent on-course general betting duty.

British Venture Capital Association

Two main concerns:

the need to establish a fiscally effective framework for on-shore venture capital funds; and

the importance of providing appropriate incentives to experienced executives to leave established companies to develop small businesses.

On entrepreneur incentives, propose that legislation should be enacted to allow full-time managers of small private businesses to invest upto £40,000 in their own company without such investment being subject to capital gains tax provided they hold their investment for at least 5 years. These gains should also be specifically exempted from the application of income tax under section 79.

General Council of British Shipping

Main requirement is creation of conditions for invesment in ships, new or secondhand.

Investment Allowances

A 50 per cent ship allowance for new and secondhand ships;

specific provision for a rollover relief for balancing charges.

Seafarers Tax

Loosen conditions under which seafarers serving on ships trading predominantly outside the UK are eligible for exemption from liability for UK tax.

Business Expansion Scheme

a British ship should be considered as part of UK for purposes of BES.

TUC Technical Representation

Five proposals:

Tax Thresholds

(i) increase tax exemption limits for trade union provident benefits;

(ii) increase threshold for benefits in kind to £10,000 with subsequent upratings in line with RPI.

Childcare Facilities

reinstatement of tax exemption for employers' contributions.

Overseas Earnings

1984 Budget measure withdrawing tax relief on overseas personal earnings should be reversed.

Pension Fund Surpluses

maximum surplus limit of 5 per cent should be increased to 10 per cent.

CBI

Three main strands:

- a package of measures to encourage enterprise;
- additional spending on the nation's infrastructure;
- a 5 per cent real increase in tax allowances.

Detailed Points:

Enterprise

expansion of initiatives to encourage research and development and marketing by small firms;

provision of 100 per cent capital allowances to benefit small firms and unincorporated businesses;

tax relief to "connected persons" under BES;

exclusion of business assets from inheritance tax;

a more flexible system of VAT penalties and easier recovery of VAT on bad debts.

Business Costs

- continue to exert downward pressure on local authority rate increases;
- reduce the rate burden on business when legislation is introduced on local authority finance;
- ensure that tighter financing constraints for nationalised industries do not represent hidden tax burden on business through higher energy and water prices;
- avoid any upward pressure on labour costs through changes in national insurance contributions.

The Unquoted Companies Group

Mainly concerned with Inheritance Tax, which though welcomed, is not considered an adequate solution to the problem of transfer taxation on family firms.

Inheritance Tax:

- business property relief - increase to 100 per cent and reduce minimum holding period for qualification for such relief to 28 days;
- reduce period of aggregation to not more than 3 years or, if this is not acceptable, re-establish the principle that the tax chargeable does not exceed 50 per cent of the death rate if the donor survives the gift by at least 3 years;
- the top rate should be reduced as quickly as possible to 30 per cent
- Other points raised on accummulation and maintenance trusts and settlements with interest in possession.

Capital Gains Tax

- exempt gains after a holding period of not more than 5 years;
- reduce rate to not more than 20 per cent;
- any unused portion of annual exemption should be eligible for carry forward to grant relief on the disposal of assets held over the period concerned;
- taxpayer should be entitled to carry his losses back against his gains during the previous 6 years.

Employee Share Schemes

- remove restriction on parent close companies from setting up schemes using shares of subsidiary companies;
- replace section 79 FA 1972 with provisions specifically designed to counter avoidance or abusive transactions;
- introduce a new Revenue approval code for "share equivalent" schemes.

The Brewers Society

No increase in beer duty.

	Managerial Professional	A.A.	S.W.A
PERSONAL TAX	(i) Reduce basic rate to 27 per cent (ii) Fully index all allowances (iii) Increase tax allowance for married couple to £4670 and reduce wifes earned income allowance to £1320		
BENEFITS IN KIND			
STAMP DUTY	Increase exemption level on house purchase to £50,000 with eventual abolition		
CGT			
IT (Inheritance Tax			
CT			Concern that whisky industry experiences a much higher rate than all other industrial and commercial enterprises
ACT			
CAPITAL ALLOWANCES			
BES			
SHARE INCENTIVES			
VAT	(i) increase VAT to 30 per cent on specified luxury goods (ii) impose additional VAT charge (15%) on all advertising on TV and in public places		
VED		Against incorporation of VED into petrol duty	
EXCISE DUTY	(i) increase duty on tobacco by 50 per cent (ii) increase duty on beer by 4p/pint, wine by 20p/pint and spirits 200p/bottle	Petrol duty should be held at present level	(i) Whisky faces excise duty twice as much as beer and wine (ii) more rapid movement toward system of drinks taxation with the same rate of tax per degree of alcoholic strength (iii) increase period of duty deferment from 4 to 8 weeks
BETTING AND GAMING	Institute an additional tax of 30 per cent on all forms of gaming and gambling		

35[illegible]84
Tax

	General Council for British Shipping	TUC (Technical)	CBI
PERSONAL TAX		Reverse 1984 measure withdrawing relief on overseas personal earnings	5 per cent real increase in tax allowance
BENEFITS IN KIND		(i) Increase thresholds for benefits in kind to £10,000 with subsequent upratings in line with RPI (ii) increase exemption limits for TU provident benefits	
CGT			
IT (Inheritance Tax			exclusion of business assets from IT
CT			
ACT			
CAPITAL ALLOWANCES	50% allowance for new and secondhand ships		100 per cent capital allowances to benefit small firms
BES	British ship should be part of UK for purposes of BES		Tax relief to "connected persons" under BES
SHARE INCENTIVES			
VAT			A more flexible system of VAT penalties and easier recovery of VAT on bad debts
CAR TAX			
EXCISE DUTY			
BETTING AND GAMING			
PENSION FUNDS		Increase surplus limit to 10%	

3593/135

	Unquoted Companies Group	Brewers Society	British Venture Capital Association
PERSONAL TAX			
BENEFITS IN KIND			
STAMP DUTY			
CGT	(i) exempt gains after holding period of not more than 5 years (ii) reduce rate to not more than 20 per cent		Measures to encourage small businesses particularly entrepreneur incentives
IT (Inheritance Tax	(i) business property relief increase to 100 per cent (ii) reduce period of aggregation to not more than 3 years (iii) reduce top rate to 30 per cent as quickly as possible		
CT			
ACT			
CAPITAL ALLOWANCES			
BES			
SHARE INCENTIVES	(i) remove restriction on parent close companies from setting up schemes using shares of subsidiary companies (ii) replace S79FA 1972 with provision specifically designed to counter avoidance of abusive transactions (iii) introduce a new Revenue approved code for share equivalent schemes		
VAT			
CAR TAX			
EXCISE DUTY		No increase in beer duty	
BETTING AND GAMING			

2811/18

FINANCIAL SECRETARY TO THE TREASURY

NOTE OF A MEETING IN FINANCIAL SECRETARY'S ROOM HM TREASURY ON TUESDAY 24 FEBRUARY WITH THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES (ICAEW)

Those present: Mr Boothman)
Mr White) ICAEW
Mr Vidler)

Mr Wilson (HOTGAS)
Mr Beighton IR

Section 79, FA 1972

1. The ICAEW had submitted two sets of representations and they referred briefly to their 'short term' proposals, covering in particular Section 79, FA 1972. The ICAEW thought that it ought to be possible to sweep the Section away but at the very least to look at the problem from the opposite viewpoint to that currently adopted. The key to doing this was the value shifting provision.

As the Financial Secretary commented and the ICAEW agreed, however, it was certainly not a simple matter to sweep the whole Section away.

Privilege

2. The Institute were keen to see professional privilege extended to tax advice given by accountants.

Mr Beighton said that the issue of privilege was, of course, one of the Keith recommendations but it had not been identified as a priority item for possible action this year. It was not one of the easier areas covered by Keith and there would doubtless be further discussions on the consultative document issued last December.

Mr White said that Keith had been somewhat unclear on this subject and what was needed was a sense of long-term direction.

Time Limits

3. Mr White said that at present there were a large number of different time limit periods used for claims, reliefs,

deferments etc. There was a need to harmonise these and now that the Keith consultation were over, the Institute suggested the possibility of consultations with the Revenue to see what could be done in this area.

4. Mr Beighton said that the various time limits in use were perhaps a little bit more rational than the Institute were suggesting and the majority were either two or six years in duration. Although it would be possible as new limits were introduced to attempt to make them fall into some sort of pattern one of the main impediments to a more general approach being adopted was the amount of Finance Bill space that harmonisation would require. There was, however, certainly some scope for movement on this front.

5. The Financial Secretary said that the Institute's ideas in this area were interesting ones and he would have a further look at them.

Communication with the Revenue

6. Mr White said that the Institute recognised that there had been a lot of abuse of the system of contacts with Technical Division at Somerset House, and they recognised the Revenue's reasons for withdrawing the facility. Nonetheless, members of the Institute would like to see some code of conduct drawn up to clarify on which areas tax advisers could write to the Revenue to seek advice on the interpretation or application of tax legislation. This advice in turn could possibly be made more generally available in essence as part of the Revenue's wider programme of publications.

Mr White said that this would be a measure which could be adopted in the short-term and which would be very well-received. The Institute would, however, like to see something more clearly defined, and it would not amount to the 'free advice service' that had existed before.

7. The Financial Secretary said that he was grateful to the ICAEW for acknowledging the difficulties that the Revenue had experienced. He himself saw possible difficulties in drawing

up a code of conduct of the sort described since it would be rather problematical to lay down guidelines for what were 'legitimate' enquiries.

8. Mr Beighton said that the Revenue were aware of two conflicting pressures here. The first was the demand for advice from practioners which had built up since the Ramsay & Furniss v Dawson decisions and the second was the pressure on resources. Dealing with these sort of enquiries was a very time consuming exercise. The Revenue recognised, however, that there was now a gap but any attempt to fill it would inevitably have some resource implications.

9. Mr White suggested that any Revenue initiative to put out information rather than respond to requests for it would be widely welcomed. It could lead in the long term to a better tax regime and would also be consistent with the aims of the Taxpayers' Charter.

10. The Financial Secretary said that he saw a read-across here to the Revenue's general publications policy. Would a subscriber system for instance be a good idea?

11. Mr Beighton said that the Revenue had some ideas in this area and would show the Financial Secretary in due course what they proposed.

Need to Simplify the Tax System

12. Mr White then turned to what the ICAEW saw as the more fundamental problems, of the complexity of tax system. The most difficult area in his view, was the taxation of capital gains. The best way of sorting that problem out would be to make the corporate and personal rates of tax the same as that charged on capital gains. This, he said, obviously had a flavour of the sort of reforms recently introduced in the United States.

The Institute were very supportive of getting the general rates of tax down and achieving a more even approach. Perhaps this was the sort of reform for a third term though?

It would be very beneficial, however, if the Revenue could get together with businessmen and professional tax advisers, and together take a look at long term fundamental reforms of the system. There had recently been a lot of good dialogues, Keith being an outstanding example. The key problem areas should be identified and an attempt made to reverse the current annual trend of an additional 200 pages of tax legislation. One area of possible interest was the schedular system, although Mr White himself placed less emphasis on this.

Mr Beighton said that the Revenue too were concerned with the complexity of the tax code. On the schedular system he said that there would always have to be different rules for taxing different types of income eg. income from employment, business and property. The complexity arose from the interaction between these rules and the major difficulty in bringing them together, lay in the previous year basis of assessment. If, despite the very considerable difficulties, a current year basis could be introduced for Cases I and II of Schedule D the schedular system could cease to be a major cause of complexity.

Conclusion

13. The Financial Secretary said that he was very grateful to receive a Budget representation which covered broader and more fundamental issues rather than one specifically aimed at what could be done this year. He said that he would welcome the opportunity of a further meeting with the ICAEW in the Summer once the passage of the Finance Bill had been completed.

N Williams

NIGEL WILLIAMS
3.3.87

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Mr Wilson
Miss Sinclair
Mr Walters
Mr Beighton IR
PS/IR

FROM:- MRS M. HENSON

DATE:- 2 MARCH 1987

MR MCKENZIE

SUMMARY OF MAIN BUDGET REPRESENTATIONS

The Chancellor has seen and was grateful for your minute of 18 February.

Meena Henson

MR 5/25

UNCLASSIFIED

RP

FROM: MRS M HENSON

DATE: 2 March 1987

MR MCKENZIE

SUMMARY OF MAIN BUDGET REPRESENTATIONS

The Chancellor has seen and was grateful for your minute of 18 February.

Meena Henson

MEENA HENSON

INHERITANCE TAX

FINANCIAL SECRETARY TO THE TREASURY

pmp

FROM: N WILLIAMS
DATE: 11 March 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Economic Secretary
PS/Minister of State
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Scholar
Miss O'Mara
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Ross Goobey
Mr Houghton IR
Mr Isaac IR
PS/IR

BUDGET PRESENTATION: INHERITANCE TAX

1. The Financial Secretary has discussed this area of presentation with officials and Mr Cropper.

2. The Financial Secretary was in general satisfied with the presentation of the changes and in particular felt that the Press Release covered the whole range of changes exactly as required in a wholly accurate factual fashion.

3. There were two particular points that were covered at the meeting. The first was whether the family house/home should specifically feature in our presentation of the threshold and rates changes. The alternative is to use a phrase such as 'modest estates'. On balance, the Financial Secretary thinks that it is right to have a reference to 'homes', although he recognises that this point will need careful handling since it is a source

of complaint that house owners already enjoy substantial fiscal privilege.

4. More positively the Financial Secretary still very much agrees that a strong presentational point we should use is the fact that the number of taxpaying estates will be reduced by around a third.

5. The Financial Secretary also thought that it was worth briefly referring to the Interest in Possession Trust change in both the Budget EPR and the Snapshot.

6. The Financial Secretary's view is that taken together these changes represent quite a reasonable IHT package.

N Williams

NIGEL WILLIAMS
(Assistant Private Secretary)

Inland Revenue

Policy Division
Somerset House

8

FROM: G A A ELMER
DATE: 10 APRIL 1987

1. Mr ~~McGivern~~ Note at end.

2. FINANCIAL SECRETARY

1987 BUDGET REPRESENTATIONS: SCOTTISH FISHERMEN'S FEDERATION (SFF): CAPITAL ALLOWANCES

1. In his letter of 17 March, the SFF Secretary, Mr Robert Allan, again asks you to meet the SFF to hear their case for capital allowance concessions for their members. The accompanying letter from accountants, Hodgson Impey, sets out, inter alia, three specific proposals.

2. Mr McKay, the Scottish Office Minister with responsibility for fishing, has written to express support for the SFF in his letter of 3 April.

3. You declined the earlier request by the SFF for a meeting following my note of 10 February (copy annexed top copy only) in which the background and history to the SFF case is set out. As that note records, Ministers refused in 1985 to make exceptions in favour of Scottish fishermen.

What the SFF now say

4. The SFF ask you to review their case in the light of points brought out by the accountants, Hodgson Impey.

PPS
PS/Chief Secretary
PS/Minister of State
PS/Economic Secretary
Mr Monck
Mr Scholar
Miss Sinclair
Mr Bunney
Mr Cropper
Mr Ross-Gosbey

Mr Beighton
Mr McGivern
Mr Lawrence
Mr Driscoll
Mr Elliott
Mr Pearson
Mr Peters
Mr Elmer PS IR
MCU.

- Capital allowances "not a permanent relief"

5. The first point made is that capital allowances represent a "deferment of tax liability and not a permanent relief". But that shows a misconception of the primary purpose of capital allowances which is to take account of capital consumed in the earning of business profits by the depreciation of assets used in the business - in this case the fishing vessel.

6. When an existing partnership is wound up with the partners going their separate ways and its main asset, a fishing vessel, is disposed of for more than its tax written-down value - which will be nil if a 100 per cent first year allowance has been claimed - a balancing charge is almost certain to arise.

7. But it was always known that one effect of the withdrawal of first year allowances would be that substantial balancing charges would come about in such circumstances. Balancing charges do no more than clawback excessive tax relief given in earlier years due to accelerated depreciation by way of capital allowances Where an asset has depreciated in historic cost terms, in line with the capital allowances given, there is no clawback and relief for that depreciation is permanent.

- The examples quoted

8. In their first example, the accountants have chosen to present the worst possible case - a partnership change treated as a cessation with no un-allowed expenditure in the pool to act as a counter balance. No reference is made to any resources accumulated out of previous earnings and accelerated tax relief against a possible decision to move on and buy shares in a new partnership.

9. As regards the example quoted of a retiring partner, the accountants acknowledge that the clawback of earlier excess relief only comes about if the retiring partner is unwilling to be party to an election for the continuation basis to apply.

The SFF's proposed remedies

10. The first change proposed is the restoration of 100 per cent first year allowances but only for fishing vessels. Pleas for the return of first year allowances either on an unlimited basis or subject to some upper ceiling on qualifying annual expenditure have been made by the shipping industry and by others including the CBI. But none has been accepted and the Government has adhered strictly to the strategy for business taxation adopted in 1984.

11. The suggestion for "portable" balancing charges was considered in 1985. It would cut right across the present tax code and would in essence be close to a rolling-over of balancing charges, something which has been assiduously sought by the GCBS but firmly resisted by Ministers.

12. The further suggestion that capital allowances should not be time-apportioned in the first basis period is new. For the year in which a trade is commenced, income tax assessments are made by reference to the profits for the period from the day the trade commences to the following 5 April. Writing down allowances are reduced proportionately when, as usually happens, the period of trading is not the full year. To do as is now suggested and give a full 25 per cent writing down allowance in the first period, irrespective of its length, would again be open to the objection that that would amount to the restoration of an element of accelerated depreciation. Plainly, such a change could not be confined just to Scottish fishermen.

Number of cases likely to be affected by balancing charges

13. Although the accountants say that there are problems in over 50 per cent of vessel changes they have supplied no actual figures. At the time of the in-depth 1985 study, the SFF referred us to "27 share transfers involving 22 vessels in the 14 month period January 1984-February 1985" all in connection with a sample of 35 vessels. When analysed, however, there was only a rump of 6 cases where problems involving balancing charges could have arisen.

The question of a meeting

14. Once again, the question whether or not to meet the SFF is one for Ministers to decide. Mr McKay hopes that a meeting to discuss their difficulties will be possible as does Mr Jim Wallace MP in his letter of 9 March. Mr Wallace sees such a meeting as a preliminary to a Finance Bill amendment.

15. The case put forward for special treatment is however, no stronger in 1987 than it was in 1985. Ministers have consistently made it clear that they remain firmly opposed to any breach in the 1984 business tax reform strategy - whether in favour of particular industries or on some wider basis which would serve to meet the SFF case. Against this background therefore there is much to be said for turning down the SFF proposals at this stage without a meeting, which is unlikely to take matters any further forward. In the event that you decide not to meet the SFF, you may care to write to Mr Allan, Mr McKay and Mr Wallace in terms of the attached drafts.

16. If, however, you feel that you should at least hear what more the SFF have to say, we stand ready to provide official support.

G A A ELMER

We see little scope for giving the SFF what they are seeking without breaching the 1984 reform strategy. You will, however, wish to consider their request for a meeting. You will see that they have floated the possibility that they might be accompanied by a cross-section of Members from all parties.

EMcG.
10/4

E McGivern

Jim Wallace Esq MP

You wrote to me on 9 March about correspondence from the Scottish Fishermen's Federation seeking the restoration of first year capital allowances for fishing vessels. I am sorry that I have not replied sooner but, following receipt of your letter, I heard again from Mr Robert Allan setting out very fully his Federation's case for change in the system of capital allowances in ways that would help the members of his Federation.

In the circumstances, it seemed best to defer replying to you until I had considered Mr Allan's further letter and replied to it. This I have now done and I enclose a copy of my reply for your information.

You will see from the terms of my reply that, having looked at the matter again as sympathetically as possible, the conclusion has again been that it would not be possible to make changes of the kind sought by the Scottish Fishermen's Federation consistent with the thrust of the business tax reform strategy adopted by the Government in 1984.

NORMAN LAMONT

John J McKay Esq MP
Minister for Education Agriculture
and Fisheries
Scottish Office
New St Andrews House
St James Centre
EDINBURGH
EH1 3SX

Thank you for your letter of 3 April about the Scottish Fishermen's Federation's proposals for change in the system of capital allowances in ways which would help the Federation's membership.

The SFF have presented their case in considerable detail as they did in advance of the scrutiny which this whole matter received in 1985. There was then a very thorough and in depth examination of all the factors involved to see if there were ways in which it would be possible to meet the SFF case, consistent with the thrust of the strategy underlying the Government's programme of tax reform. The conclusion reached was that that was not possible.

The SFF have asked for three specific proposals to be considered. Only one is new and that is the suggestion in relation to the time apportionment of capital allowances on the commencement of a trade. But all three proposals are open to the objection that they would involve restoring to the capital allowance system, to a greater or lesser degree, precisely that element of accelerated depreciation which the 1984 changes were designed to remove.

It is also important to bear in mind that the primary purpose of the capital allowance system is and always has been to make provision for capital consumed in the earning of business profits by the depreciation of capital assets used in the earning of those profits. It was always known that the incidence of balancing charges was likely to increase with the disappearance of 100 per cent first year allowances. That was one of the reasons why their withdrawal was phased out over a period so as to allow time for adjustment. But balancing charges do no more than bring tax relief for depreciation into line with the depreciation actually experienced in circumstances where the relief given in earlier years turns out to have been excessive.

I fully appreciate that where taxpayers have claimed relief on the whole cost of an asset at the outset because of the previous availability of 100 per cent first year allowances, balancing charges are inevitably likely to be large if the assets retain a high resale value. However, even allowing for the special factors present in Scottish share fishing, that is not a situation which will be confined to any one specific sector of the business community.

As I have already indicated, the conclusion reached in 1985 was that Scottish share fishermen could not to be isolated from the changes made in 1984 and dealt with in ways fundamentally different from other taxpayers. As you will see from the enclosed copy of my letter to Mr Allan, the SFF Chief Executive, the fresh look which I have been able to give this matter has not lead to any change of view.

I am sorry that I cannot be more receptive to the case that has been made but I think it only fair to point out that, while it was right to concentrate in 1984 on reducing rates of corporation tax, that does not mean that the interests of the self-employed have been overlooked over the period since 1979. In particular, the personal rates of tax have been substantially reduced, with the basic rate coming down from 33 per cent to the 27 per cent proposed in this year's Budget.

In addition, of course, it is important not to overlook the level of assistance by way of grants totalling some £m66 over the last three years from both Community and Exchequer Funds which has been available to the fishing industry.

NORMAN LAMONT

Robert Allan Esq
Chief Executive/Secretary
Scottish Fishermen's Federation
35 Albert Street
ABERDEEN
AB1 1XU

Thank you for your letter of 17 March and the enclosures which you sent.

I am very conscious of the great care you have taken over the presentation of the Federation's arguments for changes in the capital allowance system in ways which would be favourable to your members. You have set out the arguments in great detail and I have studied both your letters on this subject carefully and with great interest.

As I am sure you appreciate, the purpose of the changes in the system of business taxation made in 1984 was to create a more neutral tax system with allowances for depreciation more closely reflecting actual asset life. It is against that background that any proposal for further change in the capital allowance system has to be considered. Having looked at the three specific proposals you have put to me, I can only say that each of them would involve breaching the strategy underlying the 1984 reforms, in one way or another.

When I wrote to you in February, I recalled the very close and sympathetic examination which this matter had received in 1985. The conclusion reached in the light of that examination was that share fishermen could not reasonably be isolated from the changes in business taxation and dealt with in a way fundamentally different from other taxpayers. In the light of the fresh look I have now given to this question, I am afraid that the answer must again be that Treasury Ministers are not persuaded that it would be right to take steps to protect Scottish fishermen from the increased likelihood of a tax liability on balancing charges due to the phasing out of 100 per cent first year allowances. In that respect, while I am grateful for your renewed offer to elaborate on the Federation's case at a meeting, I do not think such a meeting would add significantly to the very helpful information you have already provided.

As you know many of the difficulties in this area are in practice resolved satisfactorily either by the operation of the present law or on the ground. Moreover, the extent of any difficulties will diminish now that tax and commercial rates of depreciation have come more closely into line with one another. And it is important not to lose sight of the essential nature of a balancing charge which is to recover tax relief given at an earlier stage which turns out to have been excessive when compared with the asset depreciation actually experienced.

I am sorry to have to reply in terms which I realise will be disappointing. I can however assure you that the suggestion that the industry which your Federation represents should be afforded special treatment has throughout been given very close and careful consideration. The conclusion reached that the proposals put forward cannot be met consistent with the underlying thrust of the Government's strategy for business taxation has not been taken lightly.

NORMAN LAMONT

L. YOUNG BUDGET REPRESENTATION

BUDGET SECRET: TASK FORCE LIST

pmg

FROM: MISS C E C SINCLAIR
DATE: 27 January 1988

COPY NO 1 OF 20

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Monck
Mr Culpin
Mrs Lomax
Mr Michie
Mr Sparkes
Mr Cropper
Mr Tyrie
Mr Call

PS/IR
Mr McGivern - IR
Mr Lewis

PS/C&E

BILATERAL MEETING WITH LORD YOUNG 29 JANUARY: BUDGET REPRESENTATIONS

You are meeting Lord Young on 29 January. We recommend that you

(a) have a general word about his Budget representations - there is a particular point we would like you to raise;

(b) tell him that you are thinking of a sharp increase in the car scales (as agreed at the first Overview meeting).

Lord Young's Budget representations

2. Detailed briefing on these is attached. You will be sympathetic to Lord Young's proposals on income tax, and can take an open view of his suggestions on NICs. But most of his other Budget proposals look unacceptable in terms of your wider tax

policy objectives: and some are ideas which have been looked at and rejected in the past eg tax relief for expenditure on R&D before a company starts to trade. Overall, you will not want to sound particularly forthcoming.

3. There is a particular issue which we would be very grateful if you could raise with Lord Young. You will see that he is proposing BES style relief for investment by individuals and companies in Local Enterprise Companies. The CBI argue for much the same thing - local investment companies - in their Budget submission. IAE agree with us and the Revenue that the proposal is very similar to ideas for Small Firms Investment Companies (SFICs) which have been exhaustively examined in the past, and rejected. Lord Young's officials in the deregulation unit have produced a lengthy paper on the proposal, and are pressing for detailed discussions with the Inland Revenue. The officials directly concerned are heavily involved in Budget work, particularly on the BES scheme for the private rented sector, as well as for changes to the BES scheme itself. Unless you are attracted by this proposal, the Revenue would like to avoid the distraction of discussions with DTI officials on the details of LECs in the run up to the Budget. The basic issue is not the detailed workings of such a scheme, but whether there should be a tax incentive of this kind at all.

4. We wonder if it would be possible for you to tell Lord Young that you consider that this particular proposal is very similar to ones which have been looked at very thoroughly in the past, and rejected; that the creation of a special new tax relief sits uneasily with your general tax policy objectives; and that you would be very grateful if he could agree that this idea should not be pursued for this Budget since there are heavy competing demands on the Revenue officials involved.

Car scales

a FBT folder.

5. Mr Monck will be submitting a note to-morrow giving our preliminary assessment of the likely impact on the UK industry of a doubling of the car scales used for tax. The conclusion

is that it would not be great. We recommend that you tell Lord Young that

(a) you are considering a sharp increase in the car scales;

(b) the present degree of under-taxation leaves plenty of room for this;

(c) your assessment is that the impact on the UK car industry would not be large; but that if he wishes, your officials would be happy to talk to his about the reasoning behind this view.

CAROLYN SINCLAIR

ANNEX A

BRIEFING: LORD YOUNG'S BUDGET PROPOSALS

1. **Higher Rates of Income Tax**

Proposal: Reduce and simplify the higher rates of income tax as a first priority.

Lord Young points out that:

- The present structure has remained unchanged since 1979.
- The thresholds for the highest rates have not increased as fast as inflation.
- The gap between the basic rate and the first higher rate is now 13 points.
- The top 60 per cent rate compares unfavourably with the USA.

Line to Take: You will be sympathetic to this proposal

2. **Basic Rate of Income Tax**

Proposal: Reduce the basic rate to 25p and cut the small companies' CT rate by a corresponding amount.

Line to Take: A 25p basic rate is your publicly declared aim.

3. **National Insurance Contributions**

Proposal: Alleviate the discouraging effect on employment of people at pay just above each NIC step.

DTI officials are apparently working up a scheme of their own. Lord Young wishes to see improvements introduced in the next Autumn Statement, if not earlier.

Comment: Lord Young makes it clear that he wishes to see the NIC steps reduced in size, at least for employers. The current option at the lower end of the NIC structure would not achieve this particular objective, though it would of course help many low paid employees between the steps. It seems unlikely that the DTI have come up with anything radically different to the options on NICs which have been explored at length in recent months.

Line to Take: We suggest that you ask Lord Young to communicate his ideas to your officials as soon as possible so that we can see if they have any merit.

4. **Companies' purchase of own shares**

Proposal: ACT should not be payable when a company buys its own shares in the market.

Comment: This proposal was examined in Mr Ilett's minute to the Chancellor of 23 December.

You commented that the key question is whether or not there is any compelling case, either in principle or in terms of the potential loss of tax revenue, in maintaining the ACT requirement.

PRT point being looked @ again.

You asked the Financial Secretary to look into this; he concluded in his minute of 20 January that no legislation should be made this year but that the matter should be kept under review.

Line to Take: You could tell Lord Young that the subject is under active review together with the related issue of whether companies should have to cancel shares which have been bought in. You could also say that, even if this is not a 1988 starter, we propose to continue to discuss it with interested parties as occasions arise in the coming year.

5. **Local Enterprise Companies (LECs)**

Proposal: BES style relief for investment by individuals and companies (subject to some limit) in LECs. An LEC would be a Government approved company investing amounts up to £100,000 or £150,000 in small businesses within a predetermined local area. Overall, at least half of the amount invested would have to be in the form of equity but this would not apply to each investment. A loan could therefore be made to an unincorporated business. There are various other aspects to the proposal, including Government grants to LECs to help cover their appraisal costs in the early years.

Lord Young says that it is difficult to raise small amounts of capital, and that the minimum size of investment by venture capital companies is increasing. LECs are meant to fill this gap. He suggests that initially they should be confined to DTI assisted areas. He also suggests that DTI and Revenue officials should start work urgently to translate this concept into a workable tax measure.

Comment: The proposal seems very similar to ideas for SFICs that have been exhaustively examined in the past. The main differences are:

(i) The limitation that investments must be within a specified local area and in amounts under, say, £100,000.

(ii) Government assistance should be given to LECs to help finance initial appraisal costs.

The main arguments against such a proposal would be:

(i) It may be that Lord Young is correct in saying that it is difficult to raise small amounts of capital. However, **many small businesses will not wish to part with equity and the Loan Guarantee Scheme is available to help with loan finance**. If they do want to raise equity capital, the BES is already available. And the introduction of a ceiling on the amount a company can raise using BES should make it easier for them to raise small amounts of BES finance.

Raise LGS ceiling from £75,000 to £100,000 (but not in Budget!)

(ii) There would be a **loss of a direct link between investors and the businesses they were supporting** which would significantly lessen the risks for investors, calling into question the generosity of the BES-type reliefs.

(iii) There would be **substantial deadweight,** ie investment that would in any case have gone ahead would be subsidised.

(iv) Like BES, LECs would require **elaborate anti-avoidance provisions**, particularly because finance could take the form of a loan (which can be made more secure than equity) and that loans could be made to unincorporated businesses. Allowing companies to obtain tax relief would also complicate the scheme, given the need to deny relief to insiders.

(v) The case for subsidising appraisal costs is weak. **Appraisal costs are real and should be taken into account by potential investors** - if subsidised by the Government there would be a risk that finance would be raised in uneconomic ways. A venture capital fund with a mix of small and larger clients can in any case effectively cross-subsidise to surmount this problem.

Line to Take: We recommend that no further work be done on this proposal.

6. **VAT Registration Threshold**

Proposal: To allow a trader the option of a VAT-free allowance equal to the registration threshold on condition that he agrees to forgo all input VAT.

Lord Young claims that the present £21,300 threshold acts as a strong disincentive for small businesses to expand since, in the extreme case, when a business whose taxable turnover passes the threshold has to register it can become liable for VAT of £3,000, which has often to be paid out of profits.

Comment: The case made is partly true (and would be true for any level of threshold) but only for certain types of business, typically those with very few overheads for whom registration involves large VAT payments but little VAT to reclaim. These are businesses in the service sector, often trading from home, eg electricians, plumbers, decorators.

The proposal (and others to tackle the same problem) is already being examined by Customs with a view to establishing the probable resource and revenue costs. It is already clear, however, that there may be better solutions than Lord Young's proposal. Whatever the outcome, it is unlikely that his scheme or a variant would be permitted by EC law. It would therefore require a derogation which, in present circumstances (ie our recent derogation for cash accounting and ongoing discussions on the Small and Medium Size Enterprise draft directive to harmonise special schemes for small businesses), is unlikely to be granted.

Jones

Line to Take: You could express your concern at the problem, but point out that it is not as widespread as is sometimes assumed. You could say that the EC difficulty rules out action in 1988 but that Customs are reviewing the options for 1989 and later years.

7. **Research and Development**

Proposal: Tax relief should be extended to expenditure on R&D incurred before a company starts to trade.

The intention would be to encourage companies to hive off high risk R&D into a consortium company which would be funded by financial institutions. The effects of the relief would be to give these institutions immediate tax relief for the funding they provide.

Comment: This proposal was included in the DTI's Budget reps in 1986 and 1987. The Revenue did some work with DTI last year on the shape of a possible relief but Treasury Ministers decided against its introduction. The relevant points are:

(i) **R&D is already favoured by the tax system** and Ministers were not convinced of the case for yet more favourable treatment.

(ii) **The relief would run completely counter to the spirit of the 1984 CT reforms** which were designed to remove the distortions which special reliefs introduce.

(iii) **There is little evidence that the relief would encourage new R&D** as opposed to subsidising R&D which would have taken place anyway.

(iv) The **restrictions** which would be needed to ensure that the relief was correctly targetted **would inevitably fuel complaints that this was an inadequate response** to the general concern about the UK's R&D performance.

(v) The international survey of tax reliefs for R&D, published by the Revenue in 1987, suggests that **special fiscal incentives for R&D are not very cost-effective.**

Line to Take: We see no reason why you should alter your opinion last year of this proposal and recommend that it is not pursued further.

8. **VAT on Gifts to Educational Establishments**

Proposal: To extend more favourable VAT treatment of gifts of equipment to educational establishments.

Lord Young states that in West Germany no VAT is payable on such gifts whereas in the UK VAT is payable at the standard rate.

Comment: In Customs' view it is unclear how the German practice can be justified under EC law although, as Lord Young points out, the practice has not yet been challenged.

Line to Take: Most of the pressure for a concession of this kind comes from computer companies whose gifts to universities and colleges commonly have strings attached; ie they are not really gifts at all. You should therefore resist this proposal even if we were satisfied (which we are not) that it would be permissible under EC law.

9. **Professional Training Expenses**

Proposal: Expenditure by members of professional institutions on their continuing professional training should be tax-allowable and expenditure on full-time courses of management education should be allowable against future income.

Comment: This proposal (also made by Kenneth Baker) was examined in Miss Rhodes' minute to the Financial Secretary of 6 January.

The existing tax concession on employee-borne training expenses applies only where the course is job-related and where either the employer reimburses the employee or allows the employee time off on full pay to attend the course. The argument against extending it is that **it would be very difficult to restrict tax relief to only those expenses incurred on training courses which had a direct and positive job or professional application**, as distinct from those which may have only incidental relevance or purely recreational value.

Quite apart from this objection in principle, there would be **a very substantial staff cost** for the Revenue and a revenue cost of £50 million annually, of which a significant proportion would be deadweight.

It also seems **doubtful whether a tax incentive of this kind would be the most effective way of encouraging people to undertake vocational training.** It must surely be more desirable to persuade employers to recognise the value of and pay for the continued training of their professional staff. The existing tax incentive encourages them to do so.

Line to Take: We recommend that you resist this proposal.

10. **Chance of a Lifetime**

Proposal: An exemption from income tax in the most deprived inner city areas for the first two years of a new business to be available once in a businessman's life.

This is a repeat of a proposal made last year, then to be nationwide. Lord Young sees this more limited proposal as particularly relevant to the needs of the inner cities and "as an alternative to remaining in the black economy".

Comment: The Revenue see the following objections:

(i) **Cost.** Lord Young suggests it would be "within manageable proportions" but without a clearer idea of exactly which areas he has in mind it is impossible to be more specific. Last year, Lord Young estimated the nationwide cost at perhaps £1 billion a year. A significant proportion of any cost would be deadweight because a lot of the people benefiting from the scheme would have started up in business anyway.

(ii) **Likely effectiveness.** Is a tax holiday the best way of encouraging people to start out in business? A potential entrepreneur is surely more likely to be deterred from setting up in business because of fears of lack of ready cash in his first two years, when he is getting established and unlikely to be making anything much in the way of profits - certainly not profit which would be liable to tax. He is far less likely to be deterred by the thought that if he does well enough to make good profits in his first two years he will subsequently have some tax to pay on them. This suggests that the (apparently very successful) Enterprise Allowance approach is a far more effective way of giving a financial incentives to new businesses.

(iii) **Equity vis-a-vis employees.** Employees would think this scheme very unfair. The unfairness would be particularly apparent, and hard to justify, in circumstances where self-employed and employees work side by side - eg in the building trade. Why should "labour only subcontractors"

- the "lump" - enjoy two years' tax exemption, but not building employees?

(iv) **Pressures on employment - self employment boundary.** There would clearly be more pressure in this difficult area.

(v) **Limited scheme.** This would be open to abuse - for example, it would be easy for someone whose real home, and work, was outside the particular inner city area to arrange for a postal address - or temporary digs - there.

Line to Take: We recommend that you resist this proposal.

11. **BES Investment in Inner Cities**

Proposal: Relax BES conditions for investment in deprived inner city areas.

Lord Young suggests that property in these areas should be disregarded when applying the land and buildings' restriction, having the effect that all of a company's assets could take the form of inner city property. He also suggests raising the annual limit on an individual's BES investment from £40,000 to £100,000 where at least £60,000 is invested in inner city areas.

Comment: Looked at simply in terms of the BES relief there is no strong case for either relaxation.

Property in deprived inner city areas may be worth less than equivalent property in other areas but there is no reason to believe that it provides a less secure investment.

There seems no reason for assuming that allowing an additional £60,000 of BES investment for companies trading in inner city areas would be more effective than allowing it for investment elsewhere; it might simply displace investment that would have taken place anyway, either in inner cities or outside those areas. The cost of an additional £60,000 limit would be up to £35 million.

discuss w [illegible]

Line to Take: If there is a good case for these relaxations it would have to be based on the policy for helping deprived inner city areas. But tax reliefs are usually less cost-effective in this respect than direct expenditure or grants since they are non-discretionary and therefore inevitably less well targetted. We recommend that you resist this proposal.

12. **<u>Technical Representations</u>**

Proposal:

(i) Extend the proposed relaxation of S79 FA 1972 to cases where managers' equity is acquired at a discount.

(ii) Relax dispensation requirements for P11D forms.

(iii) Relax eligibility rules for tax exemption certificates in construction industry.

(iv) Give earlier tax repayments for insured pension schemes.

(v) Take into account solvency and EC considerations in the dispute with insurers over discounting for future claims.

(vi) Changes to SRF could adversely affect Lloyds' competitive position.

Comment: We have assumed that neither you nor Lord Young will wish to discuss these points in detail, but briefing is available should you require it.

Line to Take: You will want to thank Lord Young for these points and say that you have passed them to the Revenue for their consideration. You may also want to tell him that you plan no changes to Lloyds SRF. Lord Young is unlikely to object; his main concern was at possible abolition.

NOTE OF A MEETING HELD IN NO.11 DOWNING STREET

AT 9.00am MONDAY 29 FEBRUARY 1988

Present: Chancellor of the Exchequer
Financial Secretary
Mr Scholar
Mr Culpin
Mr Cropper

Mr Corlett - IR
Mr Stewart - IR

MAINTENANCE PAYMENTS: TRANSITIONAL ARRANGEMENTS

Papers: Mr Isaac's note of 26 February; Mr Stewart's note of 26 February.

The Chancellor said that Mr Isaac's note had given a firm steer towards "opting in", but had promised further reflection over the weekend. Did the Revenue still favour this option? Mr Corlett confirmed that "opting in" remained the Revenue's first choice - assuming that their original proposal for a straight "tax free ration" was not a runner.

2. The Chancellor noted that a principal difficulty with "opting in" was the ease with which it would allow an unco-operative husband to behave awkwardly. On the other hand, he recognised that there were difficulties with "opting out", as Mr Isaac had recorded.

3. After discussion, the Chancellor concluded that, in the face of these difficulties it would be best to revert to the original

Revenue proposal, but with a tax-free ration of £1370 rather than of £2425. A drawback of this proposal was that it would tend to encourage those currently subject to maintenance arrangements to stay in the old system, and could therefore lengthen the transitional period. Mr Corlett confirmed, however, that it would not cause the Revenue major administrative problems to run the two streams in parallel.

4. After further discussion, it was agreed to proceed on this basis. The details are set out in the Annex to this note.

J M G TAYLOR

29 February 1988

Copies to:

Those present
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr McIntyre
Mr Battishill - IR
Mr Isaac - IR

ANNEX

MAINTENANCE PACKAGE

"New" Orders

- payer gets relief of up to £1370 (at present values) on payments to one or more divorced or separated wives

- payer gets no relief on other maintenance or affiliation payments

- all payments to be free of tax in hands of recipient

- all payments to be made gross.

Existing ("old") Orders

- opportunity to revise or vary these orders during 1988/89

- payer will be entitled to full relief on amount paid in 1988/89

- from 1989/90 payer's relief will be "capped" at 1988/89 level;

- divorced or separated wife recipient will be exempt on £1370

- where payments currently paid net, they will continue net in 88/89 but switch to gross in 89/90

- payer can at any stage opt to switch to the regime for new orders.