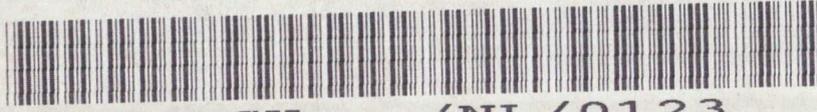


PO-CH/NL/0123

PART B

SECRET

(Circulate under cover and
notify REGISTRY of movement)



PO -CH /NL/0123



PART B

BUDGET 1988 TAX ISSUES

PO -CH /NL/0123

PART B

4's 25 years NAGIS 17/8/95

7-3-88



PT-D
LA

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

BUDGET SECRET - TASK FORCE LIST

Copy No. 1 of 34

FROM: P R H ALLEN
DATE: 29 January 1988

- cc: PPS/Chancellor
- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr Anson
- Sir A Wilson
- Mr Byatt
- Mr Scholar
- Mr Culpin
- Mr Sedgwick
- Mr Odling-Smee
- Miss C Evans
- Mr Hudson
- Mr Cropper
- Mr Tyrie
- Mr Call
- Miss Sinclair
- Mr Riley
- Mr Battishill)
- Mr Isaac)IR
- Mr Painter)

CHANCELLOR

EXCISE DUTIES: OVER REVALORISATION

The attached revised version should replace Annexe B to Mr Knox's note of 28 January. The changes relate to sherry and port, where the correct figures should reflect straight revalorisation.

Done
TAVIL
29/1/88
ATTACHED
IS OLD
VERSION

RA.

P R H ALLEN

Internal circulation: CPS, Mr Knox, Mr Jefferson Smith, Mr McGuigan, Mr Whitmore, Ms French, Mrs Hamill

"Adjusted" double revaluation

ANNEXE B

	Price change including VAT on typical item (1)	Yield 1988-89 £m (2) (3)	RPI impact effect (4) %
Beer	1.8p per pint	140	0.08
Cider	1.8p per pint	10	neg
Wine - table wine	7.0p per 75cl	35	0.04
- sherry	11.3p per 70cl)	5	0.01
- port	13.0p per 70cl)		
Spirits	20.1p per 75cl	25	0.03
Tobacco			
- Cigarettes	7.6p per 20 KS	190	0.16
- Cigars	1.9p on 5 whiffs	5	neg
- Pipe tobacco	nil	nil	neg
Petrol			
leaded	11.4p per gallon)	545	0.23
unleaded	6.4p per gallon)		neg
Minor Oil Duties			
- Fuel oil	nil	nil	nil
- Gas oil	nil	nil	nil
Derv (5)	10.2p per gallon	140	0.01
VED - cars	nil	nil	nil
- other			nil
TOTAL		1095	0.56

neg = negligible

(1) VAT is payable in addition to the duty except in the case of VED.

(2) Rounded to nearest £5m.

(3) Assuming mid-March Budget .

(4) Based on latest RPI (December).

(5) Most derv consumers can reclaim VAT.

Revenue estimates assume 9% offset for bus fuel grants.



COPY NO. 16 OF 17.

FROM: J M G TAYLOR

DATE: 25 January 1988

MR ISAAC - Inland Revenue

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill - IR
Mr Corlett - IR
PS/IR

COVENANTS TO CHARITIES

The Chancellor was most grateful for your minute of 20 January.

2. He thinks we should look into the possibility of eliminating all tax relief for covenants, but giving a tax relief for gifts to charities generally. This should, however, be after the Budget - as a possibility for 1989.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

BUDGET SECRET: TASK FORCE LIST ONLY

COPY NO 1 OF 9

FROM: P J CROPPER

DATE: 29 JANUARY 1988

CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Mr Tyrie
 Mr Call

I believe that at last Monday's Prayers you asked for views on rate versus threshold. I would have voted for rate if I had been present.

After March 15th the strongest criticism of the Income Tax structure will lie against the combined starting rate of (25+5)% or so on incomes less than half the national average. This is much too high. It could be tackled either by getting the rate gradually down to, say, (10+5)% or by pushing up the threshold to say double its present level. Either would need a prodigious amount of money.

The practical solution probably lies in the introduction of a fairly broad reduced rate band - say £5,000 at (10+5)%, followed by £15,000 at (25+5)%. If this were the gameplan, a real-terms rise in thresholds this year would be counter-productive. We need that money in 1989 or 1990 to establish the reduced rate band. I happen to believe, incidentally, that for citizenship reasons we ought to collect some tax from most people - but not at a rate of (25+5)%.

So my prescription would be to go for (25+5)% this year and just index the thresholds. Any spare money would have to be put by towards introduction of the reduced rate band in 1989 or 1990 - we could start off, if necessary, with £2,500 at (20+5)% and go on from there.

If you felt that putting money by was going to be unnecessarily provocative to the spenders, you could still do (24+5)% plus indexed thresholds. Then, as the basic rate came down through 23, 22, 21, 20 you might introduce the reduced rate band with a sort of bifurcation - splitting the present basic rate band

*Shy of Lab
 25+5% = 30%*

part downwards and part upwards, to arrive at a reduced rate band taxed at (10+5)% and a main band at (25+5)%.

The reduced rate band presents major administrative problems for the Inland Revenue, I know. Sadly, I think we will have to face up to them. I can see no other way of getting rid of the present horrendous starting rate in our tax scale.



P J CROPPER

Postscript

Luncheon Vouchers. The proper thing to do from a small business point of view is to raise the tax exempt maximum for Luncheon Vouchers to about £2.50 a day. That would equalise the position as against people working for large firms with subsidised canteens.



DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

David Willetts Esq
Centre for Policy Studies
8 Wilfred Street
LONDON
SW1E 6PL

9 FEB 1988

Mr. D. Saunders
PPS, CST, PMG, EST
Mr. Beovich

Any other papers
on this subject
eg from Peter
Kemp?

MJ
LOOKED IN FILE
+ SPOKE TO FST
NOTIFIED YET

TL 15/2

Don Deird.

You wrote to me on 26 August about tax and health care, in particular the tax treatment of health mutual trusts. As you know, my officials have been pursuing the subject with the Inland Revenue and I am now able to give you a fully reply.

The key question which will determine the tax treatment under Schedule E is whether:

- a. The employer is purchasing a contractual right for his employee to receive treatment - in which case the taxable benefit is the cost of the employer of purchasing that right,
- or
- b. The employer is paying for his employees medical treatment (whether directly or via an intermediary) - in which case the taxable benefit is the cost of the treatment.

The Inland Revenue believes there is no reason why it should not be possible for an employer to set up an 'in-house' arrangement involving the use of a trust where the taxable benefit was the annual amount paid for the purchase of a contractual right to medical care as at (a) above. The main features of such an arrangement would be that under the trust deed -

- each employee would have an absolute right to have the cost of specified medical treatment paid for by the trustees;
- the employer's annual contribution paid to the trust for each employee should be identifiable;
- once paid the contributions should be completely and irrevocably alienated from the employer;

E. R.

- the trust could only be terminated when all claims for treatment for periods for which contributions had been made by the employer had been met;
- neither the employer nor the trustees would be able at any time to vary the terms of the trust as regards these essential features.

While this is a matter for DTI, the Inland Revenue's view is that it would also be necessary for the employer and trustees to obtain their agreement that the scheme was not carrying on a business of insurance within the meaning of the Insurance Companies Act.

Two other tax questions arise in connection with in-house health insurance schemes: whether the employer contributions are deductible from his taxable profits and whether the trust will be subject to the additional rate charge on its investment income. On the first, contributions by an employer to an Employees' Benefit Trust Fund which is set up to provide free private health care must be considered under the normal business expenditure rules, and provided the payments are of a revenue nature and are incurred wholly and exclusively for the purposes of the trade, I am told they will generally be treated as an allowable deduction in computing the employer's profits. However, no advance ruling can be given to the admissibility of the contributions because in every case it will first be necessary to see the Trust Deed and to examine the terms under which the Trust operates. Only then will it be possible for the Inspector of Taxes to take a decision on whether the contributions are deductible. In practice, an employer's contributions will normally, I gather, be allowable if the following conditions are satisfied:-

- a. the Trust Deed does not permit the refund of contributions to the employer and
- b. the Health Care Scheme is available to the employees in general and is not restricted to a limited class of employees such as directors and their families or the family of the proprietor.

Turning to the question of the additional rate charge, if the trustees of a scheme have power to accumulate income then the additional rate charge under S16 of the Finance Act 1973 could well apply to any investment income which is to be accumulated.

In summary, therefore, I believe that it would be possible to devise a scheme to provide health cover for employees which will have the desired tax treatment. I hope the general guidance in this letter is helpful.

I am copying this letter to Norman Lamont.



JOHN MOORE



J.J. Heywood

FROM: J J HEYWOOD
DATE: 1 February 1988

MR PAYNE IR

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Mr Cropper
Mr Tyrie
Mr Call
Mr Jenkins OPC
PS/IR

✓

BASIC RATE

The Financial Secretary was most grateful for your minute of 27 January which considers what consequentials might follow if a decision were taken to change the basic rate of income tax.

2. He agrees with your recommendations in paragraphs 3, 4 and 9 and agrees that we would need the usual explanatory press notices.

3. The Financial Secretary is looking forward to seeing the paper on the Additional Rate as soon as possible.

9.12

JEREMY HEYWOOD
Private Secretary



Inland Revenue

Policy Division
Somerset House

FROM: B A MACE

DATE: 1 FEBRUARY 1988

1. MR ISAAC *Isaac*
2. FINANCIAL SECRETARY

*The change is the
(ii) & (iii) is tricky. I have
it but for help to have
views of all those & advise
ASAP*

ADDITIONAL PERSONAL ALLOWANCE

1. There are one or two aspects of the changes to the rules for the additional personal allowance which need to be settled now that Ministers have decided on the option of limiting cohabiting couples to a single APA between them.

Timing of the change

2. The report by officials on the options for dealing with the tax penalty on marriage to which the APA gives rise (attached to Miss Sinclair's submission of 23 December) explained that the options which involved a solution within the tax system (a cohabitation rule or linking entitlement to the APA to the receipt of social security benefits received by single parents) could be implemented by April 1990 or possibly a year earlier. We need to settle when the implementation date should be.

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Peirson
Miss Sinclair
Mr McIntyre
Mr Riley
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishall
Mr Isaac
Mr Painter
Mr Lewis
Mr Corlett
Mr Beighton
Mr Mace
Mr Stewart
Mr Allen
Mr J C Jones
Miss Dyall
PS/IR

Mr Jenkins (Parl. Council)

3. Although we can legislate in the 1988 Finance Bill to limit cohabiting couples to a single APA we cannot make the change effective immediately because the new rules will involve a review of the entitlement to APA of all the present half million claimants. As we have said we have no method of enforcing the new provision on the basis of the information available to us so we think we shall probably need to issue questionnaires to all APA claimants asking them to confirm their entitlement to the allowance on the basis of the new rules. The most convenient time to do this would be in the autumn of 1988 so that any change in the rules could then be implemented from April 1989. The alternative option would be to make the change in the rules effective from April 1990 at the same time as the change to Independent Taxation. But that would mean that the work of reviewing the entitlement of APA claimants would have to be undertaken at the same time as tax offices will be heavily engaged in work on the preparation for Independent Taxation. So our strong preference would be to make the change effective from April 1989.

Change to the rules

4. We are still considering the precise form which the change to the APA legislation would take but subject to discussion Parliamentary Counsel we think that the restriction of the APA claims could be achieved by providing that where an unmarried couple were living together as husband and wife for any part of a year of assessment only a claim in respect of the youngest child who was a qualifying child of either of the partners would be admitted. This change in the rules would not disturb the existing entitlements of other APA claimants and where both partners in a cohabiting couple had a valid claim to the APA in respect of their youngest child the existing provisions which provide for the apportionment of the APA where two or more individuals have a claim in respect of the same child would (with possibly some minor consequential amendments) apply automatically.

APA for an incapacitated wife

5. In addition to single parents the APA may also be claimed by another group: married men whose wives are totally incapacitated by mental or physical infirmity. We need to consider the future of this part of the allowance in the context of Independent Taxation.

6. This issue was discussed in Miss Dyall's submission of 8 October against the background of the possible conversion of the APA into social security benefits. (For convenience I attach a further copy of that note). You suggested (Mr Heywood's note of 19 October) that this issue should be considered as part of the official study of the APA options. Miss Dyall's note indicated, however, that we would need to come back to the question if, in the event, the conversion of the APA into benefit did not go ahead.

7. As Miss Dyall suggested in her note (paragraph 19) the case for removing this part of the additional personal allowance on the changeover to Independent Taxation remains strong even though the APA generally is not now to be abolished. Since the allowance was introduced in 1960 the scope of social security benefit provision for the long-term sick and disabled has been considerably extended. The test of "total incapacity" of the wife which has to be satisfied before the APA is available to the husband is very strict indeed. A wife who satisfied that test would certainly qualify for at least one of the benefits such as Attendance Allowance listed in Annex A of Miss Dyall's note. Like the minor personal allowances (dependent relative allowance, housekeeper allowance and son's/daughter's services allowance) which you will be abolishing in this year's Budget, the APA for an incapacitated wife is now something of an anachronism. Fewer than 10,000 husbands qualify for it.

8. Retaining this part of the APA on the changeover to Independent Taxation would be sex-discriminatory because there is no equivalent allowance for wives whose husbands are totally

incapacitated. As Miss Dyall explained (paragraph 11 of her note) this discrimination would be brought into sharper focus because under Independent Taxation breadwinner wives will as far as possible be given parity of treatment with breadwinner husbands. In practice the sex discrimination would affect very few women since few would have spouses whose degree of disability would satisfy the very strict test of total incapacity. But the disparity of treatment would have a presentational awkwardness. There is on the other hand very little case for extending the scope of an allowance which is already an anachronism.

9. Our advice would therefore be to legislate so that no new claims for the APA for incapacitated wives would be admitted after the change to Independent Taxation on 6 April 1990. Existing claimants could continue to qualify for the allowance under the present rules on one of the options described in paragraphs 13-18 of Miss Dyall's submission. As Miss Dyall explained the Option 1 approach (which would mean freezing the allowance at its 1989-90 level for this group) would be the most consistent with the transitional provisions which you are providing for breadwinner wives and for certain elderly husbands. On the other hand now that the APA is to be retained generally for single parents the balance of the arguments in favour of the Option 2 approach described in paragraph 14 of Miss Dyall's note is somewhat changed. Under that Option existing claimants for an incapacitated wife would continue to get an allowance equal to the married couple's allowance for each tax year, the same as single parent claimants of the APA. You may feel that this would be more straightforward and would make the abolition of the allowance for incapacitated wives easier to present. Since this approach would also be marginally simpler for us on operational grounds it would, on balance, now be our recommended solution.

10. If you decide that you do not want to abolish this part of the APA you will need to consider what to do about the sex discrimination which would remain. The least unattractive option might be simply to amend the legislation so that married women

with incapacitated husbands could qualify for the allowance. In practice because of the very strict conditions this would benefit very few women, so the revenue and staff cost of making the change would be negligible. But making the change would avoid awkward pressure building up on the issue during the Committee Stage of the Finance Bill. Alternatively you could do nothing (as you are proposing on the extension of the widow's bereavement allowance to widowers) and wait for developments.

Question for decision

- (i) Are you content that cohabiting couples should be restricted to a single APA between them with effect from April 1989?
- (ii) Should new claims for the APA for an incapacitated wife be ended from the change to Independent Taxation on 6 April 1990? And if so what transitional protection should be given to existing claimants?
- (iii) Alternatively if the APA for a husband with a incapacitated wife is to be retained after Independent Taxation should the allowance be extended to wives with an incapacitated husband?

B A Mace.

B A MACE



Inland Revenue

Policy Division
Somerset House

FROM: MISS R A DYALL

DATE: 8 OCTOBER 1987

1. MR ISAAC *f de 9.10*
2. FINANCIAL SECRETARY

ADDITIONAL PERSONAL ALLOWANCE: INCAPACITATED WIVES

1. As you know the Chancellor has written to the Secretary of State for Social Services to set in hand an examination by DHSS, Inland Revenue and Treasury officials of the scope for converting the additional personal allowance (APA) for single parents into benefit. (The Secretary of State replied on 24 September with a number of comments on the proposed study).

2. The APA is also received by another group: married men whose wives are wholly incapacitated. Conversion into benefit is not, however, likely to be an option for these men, although we will of course confirm this with DHSS when the study gets under way. Although their wives may receive a variety of social security benefits intended for the chronic sick or disabled it would be very difficult to compensate the small number of couples involved (less than 10,000) without giving windfall gains to many other sick and disabled people, married and single, and so incurring a heavy cost. This note, therefore, considers how this group of APA claimants should be dealt with on the assumption that APA for single parents will be abolished.

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Tyrie
Parliamentary Counsel
(Mr Jenkins)

Mr Isaac
Mr Painter
Mr Lewis
Mr Beighton
Mr Matheson
Mr Mace
Mr Eason
Mr J C Jones
Mr O'Brien
Mr Yard
Miss Dyall
Mr Boyce
Mr Kent
PS/IR

Background

3. Before 1960 married men with incapacitated wives qualified for the housekeeper allowance available to widows and widowers. When APA for those with single-handed responsibility for children was introduced in that year a Government amendment extended the new allowance to married men with dependent children whose wives were wholly incapacitated, in place of the housekeeper's allowance. The thinking behind this provision was that a wife who was wholly incapacitated was no more able to play a part in looking after the home and children than if she were not present in the home at all. In some cases indeed, she would not be, for example if she spent long periods in hospital.

Entitlement

4. The APA is equal to the difference between the married man's and single person's allowance (£1,370 for 1987/88). A married man with a dependent child whose wife is wholly incapacitated by physical or mental infirmity throughout the tax year can claim the APA on top of the married man's allowance bringing his allowances up to a total of £5,165 for 1987-88. In effect he is treated both as a married man and a single parent.

Beneficiaries

5. The test of "totally incapacitated by physical or mental infirmity" contained in the legislation is a very strict one. The fact that a married woman cannot carry out the normal range of household chores, for example, or that she can do certain domestic tasks only very slowly or painfully is not sufficient. She must be totally incapable of doing even light housework such as washing-up or ⁱ caring for her child or children. Moreover, she must be in this condition for the whole of the tax year for which APA is claimed. A married man whose wife was badly injured in a road accident, and spent 6-9 months recovering, would not qualify if at any time in the tax year she had been, or again became, fit enough to do some jobs in the home.

6. This test is actually stricter than those applied for many social security benefits. We would expect that most married women whose husbands qualify for APA would be receiving Severe Disablement Allowance, possibly Attendance Allowance, and in many cases Mobility Allowance as well. However, the fact that a married woman receives these benefits is no guarantee that she meets the conditions for APA because there is no requirement that recipients of such benefits must be wholly incapacitated by their condition or disability.

7. The sort of cases we have seen at Head Office are of wives paralysed following a stroke, or in the advanced stages of multiple sclerosis, with a chronic arthritic condition or leukaemia. "Mental infirmity" would be a serious mental disorder such as schizophrenia. A tax allowance is not necessarily the best way of helping families where the wife's physical or mental health has deteriorated to this extent, because the tax system lacks the flexibility of the benefit system in catering for special needs. It can also lead to odd results. For example whereas social security benefits in respect of children are withdrawn when the child reaches 18, APA continues to be available as long as the "child" is in full-time further education. So a married man can continue to receive APA because he has a student son or daughter (who lives away from home for most of the year) even though the wife's condition is no longer a relevant factor. Even with younger children the allowance tackles the problem obliquely - by treating the father as if he were a single parent - rather than directly as the benefit system does by tackling the problem at its source, that is, the wife's disability.

Benefit Provision

8. Over the years, the variety and rates of benefit available to the long-term sick and disabled have been considerably extended and improved. Attendance Allowance, Mobility Allowance and Severe Disablement Allowance are all benefits which have been introduced (between 1970 and 1984) since the APA for married men with incapacitated wives was introduced in 1960. Severe

Disablement Allowance replaced the Housewives' Non-Contributory Invalidity Pension for married women (itself introduced in 1977), for which the qualifying conditions were stricter, and the rules on Attendance Allowance have also been relaxed. The position of carers too, has been improved. Sometimes a married man receiving APA may take early retirement to care for his wife on a full-time basis. He may qualify for Invalid Care Allowance (introduced in 1975), which is taxable and when added to his pension or other income may mean that he still has sufficient income to absorb the APA).

9. Like single parents (who receive both APA and one parent benefit) married couples where the wife is wholly incapacitated are now receiving support through both the benefit and the tax system in respect of the same feature of their circumstances (that is, the wife's disability). There is a good case for saying that the range of benefit provision introduced since the APA took on its present form has now superseded the support which the APA was intended to provide nearly 30 years ago. As Annex A shows, the support potentially available through the benefit system is not insubstantial and is more closely matched to the precise needs of the individual claimant.

Simplification

10. There are two further points you may like to consider. The first is that the abolition of the APA for single parents would be an important simplification of our system of personal tax allowances. The benefit of this would be reduced if APA were retained for married men with incapacitated wives (about 2 per cent of claimants). Although the number of taxpayers involved is small, all our staff have to be aware of the relief and it has to be covered in notes accompanying returns and coding notices, and in the official instructions.

Sex Discrimination

11. The second point is that the allowance is sex-discriminatory in that there is no equivalent allowance for married women whose

husbands are wholly incapacitated. This issue is occasionally raised in correspondence, but is not a serious embarrassment under the present system, not least because of the exceptionally generous treatment of breadwinner wives both with and without children. Under Independent Taxation you have decided to give breadwinner wives parity of treatment, as far as possible, with male breadwinners. If the APA for married men with incapacitated wives were to be retained it should logically be extended to married women in similar circumstances. We suggest it would be desirable to avoid having to extend the scope of an allowance which is already an anachronism.

Abolition

12. If the APA for single parents is abolished, we would therefore recommend that the APA for married men with incapacitated wives should be abolished for new claimants from the same date. There would no longer be any logical basis for retaining an APA for this group of married men once APA for single parents had been abolished. We recognise, however, that this group will command some public sympathy and we would therefore recommend that married men who were claiming APA in the year before the change should be given some form of transitional protection.

Transitional Protection - Option 1

13. We suggest that you could afford to be fairly generous about the form of transitional protection given to existing claimants. The number of people benefiting would be relatively small and because of the degree of incapacity involved the cases would be likely to attract considerable public sympathy. A simple solution would be to remove the APA from the scope of the indexation provisions and freeze it at its cash value in the year

before the change. Existing claimants would be able to continue receiving the allowance at this level until they ceased to qualify. No claimant would suffer a cash loss of allowances but over time the real value of the APA would be eroded. There would be no additional staff requirement.

Option 2

14. If you wanted to be even more generous you could continue to allow existing claimants to receive an allowance of the difference between the married man's allowance and the single allowance for the tax year in question. This would preserve the position in real rather than cash terms.

Option 3

15. Both Options 1 and 2 inevitably involve a long transitional period, which would stretch from the date of the change for perhaps 15-20 years in extreme cases until either the youngest child of an existing claimant reached the age of 18 or completed further education. Although such a long transitional period is undesirable in principle, the form of protection proposed here and the small number of taxpayers involved, particularly in later years, mean that it should not cause us problems in practice. An alternative option, which would reduce the length of the transitional period, would be to freeze claimants' combined married man's allowance and APA at their cash value in the year before the change until the level of the married man's allowance floated up to meet it (by indexation or otherwise), or the taxpayer ceased to qualify for APA (see Annex B). Assuming, for illustrative purposes, indexation of allowances in line with an annual inflation rate of 4 per cent this would reduce the transitional period to about 7 years, while still protecting the taxpayer against a cash loss of allowances. However, it would be considerably less generous than the proposal described in paragraph 13 above, and less straightforward in operational terms.

Costs and Savings

16. The annual revenue cost of all three options, compared with immediate abolition, would be around £3m initially, declining over time (although the pattern of decline would be slightly different under each option). Under Option 3 the cost would be reduced to nil as soon as indexed married man's allowance caught up with the frozen entitlement (APA + married man's allowance at cash value in the year before the change). There would be a small staff saving as a result of abolition, but this would probably be in single figures.

Comparison with treatment of other losers

17. We do not think you should have difficulty in defending either Option 1 or Option 3 in comparison with the transitional protection you have agreed to provide for elderly losers and breadwinner wives. Both use the approach of freezing entitlement to protect taxpayers from a cash loss of allowances. Option 1 does so in a rather different way, but we think the differences could be defended, given that APA would be abolished entirely and not replaced by some other (albeit reduced) entitlement. Option 2 would be considerably more generous than the proposals for the elderly and breadwinner wives since it would preserve existing claimants' entitlement in real terms. This inconsistency might be noticed. You have already rejected protection of this kind for the elderly (Option 2 in my note of 16 September) in order to maintain a consistent approach between the various groups of losers.

Recommendation

18. The cases affected here are sensitive and on balance we would recommend Option 1 unless you are particularly worried about the length of the transitional period. It is more consistent with the other transitional provisions than Option 2, while still providing a generous measure of protection.

Conclusion

19. We would need to look again at these proposals if plans to convert APA for single parents into benefit do not come to fruition. However, bearing in mind the growth of better provision through the social security system, the case in logic for abolishing APA for married men with incapacitated wives would be a strong one, even if the tax penalty on marriage arising from the APA rules for single parents had to be dealt with in some other way than by conversion of the allowance to benefit. On the assumption that conversion will go ahead the points for decision here are:

- a. do you agree that APA for married men with wholly incapacitated wives should be abolished when APA for single parents is converted into benefit?
- b. do you agree that there should be transitional protection for existing claimants?
- c. should this protection take the form of Option 1 (paragraph 13), Option 2 (paragraph 14) or Option 3 (paragraph 15)?

Robin Dyall

MISS R A DYALL

1987 Rates of relevant benefits

	£s per week
Attendance Allowance	
higher rate	31.60
lower rate	21.10
Severe Disablement Allowance	23.75
Mobility Allowance	22.10
Reduction in weekly tax bill as a result of APA	7.11

EXAMPLE TO ILLUSTRATE OPTION 3

Entitlement in YOC - 1

	£
Married Man's Allowance	3,795
Additional Personal Allowance	<u>1,370</u>
	5,165

Entitlement frozen at £5,165 until Married Man's Allowance floats up to meet it*

	<u>Frozen entitlement</u>	<u>Married Man's Allowance</u>
	£	£
YOC	5,165	3,955
YOC + 1	"	4,115
YOC + 2	"	4,285
YOC + 3	"	4,465
YOC + 4	"	4,645
YOC + 5	"	4,835
YOC + 6	"	5,035
YOC + 7		5,245

*Assuming, for illustrative purposes only, that MMA is increasing in line with inflation of 4 per cent per annum.



COPY NO. 20 OF 21.

FROM: J M G TAYLOR

DATE: 2 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Peirson
Miss Sinclair
Mr McIntyre
Mr Riley
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Mace - IR

ADDITIONAL PERSONAL ALLOWANCE

The Chancellor has seen Mr Mace's submission of 1 February to the Financial Secretary.

2. He has commented that the choice between ending claims for an incapacitated wife from 6 April 1990, or retaining it and extending the allowance to wives with an incapacitated husband (paragraphs 9 and 10 of Mr Mace's submission) is tricky. He would be grateful for the views of the Financial Secretary and of all other Ministers and special advisers as soon as possible.

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR

BUDGET SECRET: TASK FORCE LIST



COPY No SPJ/7/ 1 OF 21

FROM: S P JUDGE

DATE: 3 February 1988

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Scholar
Mr Culpin
Miss Peirson
Miss Sinclair
Mr McIntyre
Mr Riley
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Mace - IR

ADDITIONAL PERSONAL ALLOWANCE

The Paymaster General has seen your minute of yesterday to the Financial Secretary's Private Secretary.

He would go for option ii at the end of Mr Mace's note, as described in his paragraph 9.

S P JUDGE
Private Secretary

BUDGET SECRET: TASK FORCE LIST

Copy No. 1 of 21 Copies

FROM: P J CROPPER

DATE: 3 February 1988

PS/CHANCELLOR

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Scholar
 Mr Culpin
 Miss Peirson
 Miss Sinclair
 Mr McIntyre
 Mr Riley
 Mr Tyrie
 Mr Call
 Mr Battishill IR
 Mr Isaac IR
 Mr Painter IR
 Mr Mace IR

ADDITIONAL PERSONAL ALLOWANCE

I go along with the Paymaster General in choosing option 2 as a transitional route to complete withdrawal of the APA for incapacitated wives, i.e. existing claimants would continue to get an APA of an amount equal to the difference between the married couples' allowance and the single allowance, in addition to the married couples' tax allowance until their qualification ran out.

PJ Cropper
 P J CROPPER

*psl*

FROM: A C S ALLAN

DATE: 3 February 1988

MISS SINCLAIR

cc PS/Financial Secretary
Sir P Middleton
Mr Scholar
Mr Culpin**BILATERAL WITH LORD YOUNG**

At his bilateral last week, the Chancellor explained to Lord Young his general plan for the taxation of car benefits. Lord Young accepted this without demur.

2. The Chancellor also made it clear to Lord Young that Local Enterprise Companies were not a starter for this Budget. Lord Young accepted this.

3. Lord Young was keen on easing the obstacles to companies' purchase of own shares (though he did not elaborate on his reasons). The Chancellor noted that this was not just a tax matter, but also involved changes to the Companies Act. It was not therefore on for this year's Budget.

ACSA

A C S ALLAN



Inland Revenue

BUDGET CONFIDENTIAL

Policy Division
Somerset House

FROM: D L SHAW

EXTN: 6300

DATE: 3 FEBRUARY 1988

- Law 563/2*
1. MR CORLETT
 2. FINANCIAL SECRETARY

PACKAGE OF KEITH COMMITTEE ADMINISTRATIVE IMPROVEMENTS:
INFORMATION ABOUT UNNAMED TAXPAYERS (STARTER 452)

1. At your meeting of 19 November to discuss the Keith package for the Finance Bill, you decided to leave one item, the power for the Revenue to obtain information about unnamed taxpayers, for further consideration in light of responses to the consultative document and, if the opportunity arose, further consultation. We understand that Ministers agreed at Chevening that this item should be included, provided we could add additional safeguards restricting its use to cases of serious default.

2. We have now discussed proposals for additional safeguards with the representative bodies and have been able to allay their fears. We believe that the

cc PS/Chancellor
PS/Paymaster General
PS/Economic Secretary
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Riley
Mr Cropper
Mr Byatt
Mr Hudson
Mr Trevett - C&E
Mr Saunders - Parliamentary
Counsel

Mr Isaac
Mr Pollard
Mr Beighton
Mr Roberts
Mr Cherry
Mr Corlett
Mr Page
Mr Duxbury
Mr Hugo
Mr Cleave
Mr Hinson
Mr Eason
Mr Ko
Mr Shaw - P2
Mr Dunbar
PS/IR

introduction of the power with these restrictions will be acceptable to the main representative bodies and recommend that it be included in the package.

The problem

3. There is a lacuna in our information powers which is allowing a lot of large tax liabilities to be hidden from the Inspector and to go unpaid.

4. Briefly, the Taxes Acts permit us (a) to ask payers for the names of all recipients of certain defined types of payments; payments of interest by banks is perhaps the best known example. We can also (b) ask for documents about a named taxpayer - ie we can ask x for documents about his dealings with y. What we cannot do is to ask x for documents giving the names of all the persons (unknown to us) with whom he has had dealings of a sort which does not fall within (a), even if we have good reason to believe that those persons are thereby not paying tax which is due.

5. For instance, this can happen where a firm of tax agents markets a "faulty" tax avoidance scheme and on investigation of the full facts the Revenue finds that the scheme does not work. The agent will have assured his customers that there is no tax liability on the profits covered by the scheme, and no need to include those profits in their tax returns. And there is no assurance, nor great likelihood, that the agents will move their clients to send in amended tax returns, when the bogus scheme is exposed. We then find ourselves in the position that:

- We know that there are sums of money, probably substantial, which are liable to UK tax and have not been included in tax returns.

- We do not know the names of the taxpayers concerned.
- We know the names of the agents and know that they have the necessary information to identify the taxpayers
- But we cannot require the agents to reveal this information.

6. We are often dealing here very much at the margin between "legal" avoidance and "illegal" evasion. What is clear is that, whether or not the promoter of the scheme originally believed it to be legally effective, the outcome is that profits which are legally liable to tax have not been reported to the Revenue.

7. A current example is provided by schemes similar to the "roller" policies which we investigated and stopped as part of the Lloyds investigation. We know that a number of agents are marketing similar schemes which do not work. We believe that their clients will have understated their profits by more than £50 million. We know the names of the agents, but have no means of discovering the names of their clients who have used these schemes.

8. Another current example is a London finance house which we know to have laundered money in a tax evasion scheme. We also know that they have similarly laundered £13 million for other clients but have no means of uncovering their identity.

Keith's view

9. Keith recommended that we should be able to uncover the taxpayers involved. He based his recommendation on a well-known provision in the American tax code. He recommended that we should be

able to issue a notice to a third party requiring him to allow us access to particular documents in respect of a specified class of unnamed taxpayers.

10. He further recommended that this power should have the safeguard that prior permission would be required from a Special Commissioner each time the power was used. The Special Commissioner would have to be satisfied that there were reasonable grounds for believing that the unnamed taxpayer or taxpayers might fail to comply with a provision of the Taxes Acts and that the information sought was not readily available to the Inspector from other sources. This would ensure that there was prior independent review and consideration before the Revenue could use this power.

Consultative Document

11. The Consultative Document on the Keith proposals which we published in December 1985 included a draft clause which exactly followed the Keith proposal.

Responses to the Consultative Document

12. We asked for responses to a short list of priority items before the end of February 1986. These priority items were included in last year's Finance Bill. We asked for responses on the remaining non-priority items, which included the information about unnamed taxpayers, before the end of October 1986.

13. We have received 22 responses on these remaining non-priority items. Of these, 16 made no reference to the information about unnamed taxpayers and were presumably in broad agreement with the measure. The remaining 6 responses, from the Institute of Taxation, Institute of Chartered Accountants, Law Society, National Federation of the Self Employed, CBI and the Chartered Association of Certified Accountants, were hostile to

some extent. Whilst the majority of these recognised the justification for this power, they were concerned that the power, as drafted, could be too wide. They sought assurance that the power would be limited to cases of serious default.

Discussions with the representative bodies

14. We met the major representative bodies on 29 January, including all of those who commented on this provision, to discuss the information powers in general, including information about unnamed taxpayers. I attach a list of the representatives who attended the meeting and the bodies they represent.

15. At the meeting of 29 January, the representative bodies agreed that the power was justified to deal with the sort of serious case described above. But they repeated their concern that the drafting was too wide.

16. We proposed two further statutory safeguards to give belt and braces reassurance that the power would only be used in the most serious of cases.

17. Firstly, a Board's Order would be required before an application could be made to a Special Commissioner. This would ensure that the application had to be personally approved by a very senior member of the Revenue - thereby ensuring strict administrative control.

18. Secondly, an additional test of seriousness would have to be met. Before he approved the notice, the Special Commissioner would have to be satisfied that the default under enquiry would result in "serious prejudice to the proper assessment or collection of tax". This would ensure that the power could only be used in the most serious of cases.

19. The representative bodies welcomed our proposals and agreed that they would provide valuable safeguard against misuse by the Revenue. But they did suggest that one further protection was necessary. They were concerned that in this difficult area, it might be possible for the notice to lack sufficient precision or to impose an unnecessarily onerous burden - perhaps because the Revenue and the Special Commissioner underestimated the difficulty of providing the documents. We accept their point. The necessary safeguard can be provided by allowing the information provider a statutory right of objection to the notice, on the basis that it is too onerous. The notice would then be varied by agreement with the Inspector, or, if agreement could not be reached, by a Special Commissioner.

20. These additional 3 safeguards meet all the concerns that the representative bodies have expressed. The only dissenting voice at the meeting was from the National Federation of Self Employed, but this was in the context of their general view that all Revenue information powers are unnecessary. The NFSE apart, the indications are that the inclusion of the power will, with these additional safeguards, be largely uncontroversial.

Reimbursement of Expenses

21. The inclusion of the information about unnamed taxpayers in the Finance Bill could provoke some argument on the reimbursement of expenses for providing information.

22. As a general rule, the Government does not reimburse the cost of complying with duties imposed by law. It is part of the citizen's normal duty to make information returns as required by law and his compliance costs are not recoverable from the Crown.

23. However, Keith recommended that this general principle should be breached where an independent third party is required to provide the Revenue with information about a named, or an unnamed, taxpayer. By independent third party, Keith meant a person genuinely at arms length from the taxpayer. This was meant to exclude the taxpayer's accountant or any other person who had acted for him in relation to business which is relevant to the Inspector's investigation.

24. Our consultative document on the Keith proposals included a draft clause based on this recommendation. Not surprisingly, this drew no criticism except for a common plea that it did not go far enough and that the Government should reimburse all the costs of any provider of information.

25. There is an important point of principle at stake here, whether any Government Department should reimburse the costs of compliance with a duty imposed by law. We do not think that you would wish to breach this principle in the limited field of information required by the Revenue from an independent third party without considering the precedent that this would set for other Government Departments.

26. A further point which you will wish to take into account is the deadweight cost. Any widening of the information powers to independent third parties under the recommended extension to unnamed taxpayers would be negligible, or non-existent. So reimbursement would be for information that is already required to be provided without reimbursement. The main beneficiaries would be the banks, who are the only third parties that we require information from that are likely to come within Keith's definition.

27. If the proposal for reimbursement is pressed in reaction to the new power discussed here, you will be able to say that it is very unlikely that any third

party required to provide information about an unnamed taxpayer would be independent of the taxpayer and eligible for reimbursement under Keith's proposal. In the vast majority of cases, the third party information provider will be the professional marketing the failed scheme. If the wider question of reimbursement of costs to independent third parties under the existing powers is raised, you can either reserve your position pending consideration of the wider issues, or reject Keith's recommendation as being in conflict with the general principle that the Government does not reimburse the costs of complying with a citizen's normal duty.

Length and complexity of the legislation

28. The legislation for the new information power will be no more than half a page, and will be quite straightforward.

The remainder of the Keith package

29. The meeting also allowed us to discuss, inter alia, the other items in the proposed Keith package with the representative bodies, except for the interest charge for PAYE which fell outside the agenda for the meeting. We, of course, gave no indication that they might be in this Budget. These other items - the obligation to notify liability and the power to obtain information from Government Departments, had received little comment in the written representations and had attracted no hostility. No significant criticism of these measures was voiced at the meeting and our proposals to meet the minor points raised in their comments were all regarded as acceptable by the representative bodies.

General shape of the Keith Package

30 If you agree to the inclusion of the information about unnamed taxpayers in the package, it will take the following shape.

- A tightening up of the obligation to notify liability to tax.
- A closing up of lacunae in our powers to obtain information about payments from Government Departments, payments of grants and subsidies out of public funds, details of licenses, information from the Department of National Savings and access to computer records.
- A power to call for information about unnamed taxpayers where serious loss of tax is involved, with the additional safeguards described above.
- An interest charge for PAYE (and NIC) delayed beyond the year end, but not starting before 1992.

31. The inclusion of the information power about unnamed taxpayers will improve the balance of this package. The first two parts of the package are aimed principally at the small defaulter, moonlighting or in the black economy. Without any measure aimed at the major defaulter, you could be accused of being hard on the small miscreant but soft on the serious wrongdoer. The information about unnamed taxpayers, which is aimed specifically at the serious wrongdoer, will redress this balance.

Conclusion

32. We recommend that the information power about unnamed taxpayers, with the additional safeguards of the Board's Order, the test of seriousness and the dispute procedure where the notice is too onerous, but with no reimbursement of costs to independent third parties, be included in the Keith package for the Budget.

David Shaw

D L SHAW

One of the other issues, not in this package, which was discussed at the meeting with the representative bodies was whether legal privilege should be extended in some circumstances to accountants. We shall be briefing you further on this for your meeting with Sir Hugh Rossi on 16 Feb. But you have previously decided that it is not something you want to tackle this year.

law



Inland Revenue

Policy Division
Somerset House

FROM: MISS A P LEES
ROOM: 20 New Wing
EXTN: 7749
DATE: 25 January 1988

KEITH CONSULTATIVE DOCUMENT
MEETING WITH REPRESENTATIVE BODIES

VENUE: The Board Room
DATE: Friday 29 January
TIME: 10.00 am

CAST: Representative Bodies

I P A STITT	Institute of Taxation
J E BREWSTER	CBI
M O PENNEY	Institute of Chartered Accountants in England & Wales
D R. ALLEN	Institute of Chartered Accountants in Scotland
MRS M SARGENT	Chartered Association of Certified Accountants
W V W NORRIS	The Law Society (England and Wales)
M H JONES	The Law Society of Scotland
M FORD	British Bankers Association
B SAYLES	British Retailers Association
T LUNDBURG	National Federation of Self-Employed and Small Businesses
K P SMITH	Public Companies Taxation Discussion Group
A E WILLINGALE	

BUDGET CONFIDENTIAL

FROM: MISS C E C SINCLAIR
 DATE: 4 February 1988

CHANCELLOR

cc Principal Private
 Secretary
 Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Anson
 Sir A Wilson
 Mr Byatt
 Mr Scholar
 Mr Culpin
 Mr Sedgwick
 Mr Odling-Smee
 Miss Evans
 Miss Hay
 Mr Michie
 Mr A Hudson
 Mr Cropper
 Mr Tyrie
 Mr Call

Mr Battishill
 Mr Isaac
 Mr Painter
 Mr J Marshall

Mr Unwin
 Mr Knox
 Mr P R H Allen

BUDGET LOLLIPOPS

FP have been asked to co-ordinate a "lollipop" trawl in Revenue, Customs and Treasury (including Ministers and political advisers). The attached note is the result.

2. Some proposals considered last year, but not proceeded with, are set out in Annex A. We have dropped certain proposals for which the justification now looks thin. As instructed, we have not included any VAT lollipops. New proposals are at Annex B.

SINCLAIR
 BUDGET
 LOLLIPOPS
 4/2

BUDGET CONFIDENTIAL

3. The proposals with most general appeal are extending widow's bereavement allowance to widowers; extra relief for the over 80s; increase in the limit for Payroll Giving; and extending tax reliefs available to charitable trusts to disaster funds. Two of these build on changes introduced last year. The bingo duty change might cheer up some.

4. The other measures are rather technical, but should be popular with particular audiences. The PRT lollipop (No 9) could be rolled up with some minor Budget measures to remove anomalies from the PRT regime (Starter no. 351 and 352).

5. All in all, a rather dull lot. One problem is that if your tax policy aims are to broaden the tax base and simplify the system, inventive lollipops are largely ruled out.

CAROLYN SINCLAIR

to (say) £180 or £240; the cost (at present) would be negligible. Mr [redacted] has pressed for this (he suggested £600). On the other hand employers and agencies would have to make a small adjustment to their systems and literature. The charity lobby might be encouraged to expect an increase every year. And the (short) Clause required would provide a peg for a debate in which they might complain about the relatively slow take-up of the scheme by employees so far, or seek compensation for the loss they may suffer on their tax repayments on covenants as a result of a reduction in basic rate, or press for a more general relief for charitable gifts.

Hardly true "lollipops"

What is the cost? What is the cost?

4. Relief for Purchase of Own Shares by an Unquoted Trading Company

To the extent that the price paid exceeds the share capital, such a purchase is normally treated as a distribution (ie liable to ACT and taxed as income). But the relief prevents it being a distribution, so that ACT is not payable and the disposal by the shareholder is (usually) liable to CGT. The relief applies where the purchase is made for the purpose of benefiting the trade (eg buying out a dissident shareholder). Two lollipops are suggested in this area: both would have only a limited appeal. Both proposals, among others, were put to us by the Institute of Chartered Accountants for England and Wales at a meeting late last year to discuss the relief for purchase of own shares. The proposal concerning bonus issues was also put forward by the ABCC in their recent Budget representations.

(a) Period of ownership of shares

See now

The first lollipop concerns the condition that the shares must have been owned by the vendor throughout the period of five years ending with the date of purchase. This condition is intended to prevent abuse through the shares being bought by someone with a view to obtaining the relief on a sale to the company (ie, a device to take profits out of the company without having these taxed as income). But we now believe that reducing the period from five years to, say, three years

OK to make issue in law with

would give adequate protection. So this has little or no Revenue cost. Staff cost: negligible. The legislation would take a few lines because of some consequential repeals. But overall four lines of legislation would be deleted.

(b) Bonus Issues

The second lollipop also concerns the relaxation of an anti-avoidance provision. When a company repays share capital this is not treated as a distribution. But this would potentially allow the distribution charge to be avoided by repaying some share capital and then replacing it with a bonus issue of shares. So there is a provision treating the subsequent bonus issue as a distribution except to the extent that it exceeds the amount of share capital which was previously repaid. At present, this provision applies generally, including where the repayment of share capital occurred on a purchase of own shares which qualified for the relief. This is unnecessary because it is a condition of the relief that the purchase is not motivated by tax avoidance. So there would be no harm in disregarding a qualifying purchase of shares when considering whether a subsequent bonus issue should be taxed as a distribution (because the potential tax charge currently deters companies from making bonus issues). There should be no staff cost. The legislation should take no more than a few lines.

5. Stock Lending by Lloyds Underwriters

Not a "Lollipop"

Various City interests have pressed for Lloyds to be allowed to be engaged in stock lending. The Revenue have registered this in their Lloyds submission as a point which could be met as part of the Lloyd's tax package this year. The Revenue and FIM recommend that the point should be met, and the Bank support it, as a significant contribution to market liquidity. The Revenue had intended to recommend action on this in their next submission on Lloyds's issues. But it is a separate point from the other Lloyd's issues (the main beneficiaries would be the market makers, rather than Lloyd's members) and can be decided independently.

Legislation would be short - a few lines added to the Lloyd's tax package. Exchequer costs would be nil.

6. Extend duty exemption for small scale bingo

What a Corca!

a Jan 1982

Small scale bingo, played mainly in non-profit-making clubs, is exempt from duty unless the stakes or prizes exceed £400 on one day or £1,000 in a week. If the limits are exceeded, all bingo in the club becomes dutiable for a period of 13 weeks. Most clubs operate successfully within the limits but the Committee of Registered Clubs Association (CORCA) has argued in recent years that they should be increased to reflect their loss in value since 1982. They also seek a reduction in the chargeable period from 13 weeks to 4. Forty nine Members signed an EDM in January supporting the CORCA proposals.

If Ministers wished a concession could be included in the Budget proposals. We suggest suitable increases would be from £1,000 to £1,250 in the weekly limit and from £400 to £500 in the daily limit. This could be accompanied by a reduction from 13 to 9 weeks in the liability period of a club which exceeds the exemption limits. The objects of the period are to prevent frequent registering and deregistering of clubs and to provide a deterrent to too many "boom" weeks. Customs and Excise could cope with a 9 week period. The revenue cost of these changes should be less than £2 million in a full year. Effects on staffing and on traders' compliance costs would be negligible.

7. Relief from Excise Duty on Petrol and Derv used in Testing Engines

For several years past, and in their Budget submission this year, the Society of Motor Manufacturers and Traders (SMMT) has sought relief from duty for oil used in engine testing.

Ministers have until now been firm in their rejection of the concept. Although superficially relief for R&D work is attractive and would cost only about £3 million a year, in practice it would be very difficult to confine relief to R&D, and the SMMT is really

seeking, and would only be satisfied with, a relief which covered all testing. This would be more expensive (up to £6 million a year), many traders would be eligible and it could be difficult to control. The relief would have to apply not only at the premises of major motor manufacturers but at engine component makers and research laboratories, including some university engineering departments. Petrol is very susceptible to misuse and it would be almost impossible to exercise effective control. SMMT acknowledge that they would have to impose their own strict regimes but think the relief would be worthwhile. Customs staff costs would be negligible. It is not possible to estimate compliance costs but they could be relatively high. Customs continue to have substantial reservations about this proposal.

8. Extend Tax reliefs available to "charitable" trusts to disaster funds

From time to time the question of treating disaster funds as charitable trusts for tax purposes has been raised. A major tax break available to a charitable trust is that interest accruing on the fund is not subject to income tax. The major difference between a charitable and discretionary trust is that the former may pay out money only "sufficient" to meet an individual's needs, whereas the latter can pay a sum of any size. Disaster funds can be set up as charitable trusts, but the trustees may choose not to do so, so as to avoid being totally constrained by the "sufficiency" test. Bringing all disaster funds within the rules for charitable trusts could have public appeal in the wake of the recent Kings Cross and Zeebrugge disasters. But there is not much current pressure for a concession in this area, and not much evidence that the present rules cause problems in practice. The Revenue's impression is that those who have put the idea forward are more concerned about clarification of the tax treatment than about securing particular tax concessions. The arguments against giving any concessions are that, it would be necessary to define "disaster" (for example does it include only major public disasters, or any form of accidents disability or illness which is a disaster for those immediately concerned)? There might have to be some

BUDGET CONFIDENTIAL

discretion for Ministers or the Revenue; but that would give rise to awkward and politically sensitive decisions about individual cases and about the criteria to be applied. It would be difficult to draw the line at disaster funds, and there could be calls for extension to other "good causes", a topical one being the British Olympic Fund. All this raises serious problems of a definitional and technical nature which could involve a great deal of work and it is most unlikely that these could be resolved in time for this year's Budget.



PHP New PS (m.b.f.)
CO

FROM: J J HEYWOOD
DATE: 4 February 1988

MR SPENCE IR

cc **PS/Chancellor**
Mr Culpin
Mrs Lomax
Mr Cropper
PS/IR

SHORT-TERM COST-OF-LIVING BONDS

The Financial Secretary would be grateful for a note on the attached article from yesterday's Financial Times.

9/2

JEREMY HEYWOOD
Private Secretary

Revenue concerned over bond tax avoidance plan

BY BARRY RILEY

THE INLAND Revenue is concerned about the growing incidence of tax avoidance through sophisticated use of indexation concessions granted in Schedule 19 of the 1985 Finance Act.

Lloyd's underwriting syndicates and certain multinational companies have discovered that their investment returns can be enhanced, or tax payments reduced, if they use short-term cost-of-living bonds. Since 1985, such bonds have qualified for an indexation allowance before capital gains tax liability is calculated.

For instance, Lloyd's syndicates have invested large sums from their premium income, perhaps more than £2bn, in index-linked bonds issued by US organisations such as the Student Loan Marketing Association (Sallie Mae).

Lloyd's syndicates are subject to high rates of income tax, normally the top rate of 60 per cent, as a reflection of the liabilities of the wealthy syndicate members.

There have been many disputes in the past arising from attempts to avoid these high rates. Such attempts have usually involved converting income to capital, for instance, through the once widespread but now forbidden practice of "bond washing."

It is understood that the potential of the index-linking mechanism has been discovered by some multinational corporate treasurers who use offshore intermediary companies to transfer index-linked UK loans to subsidiaries in highly taxed countries where the interest on the borrowings is deductible.

FT : 3 February

Bf 5/2

(PS/BST to arrange
note on
X behind, in
agreement by Ch)

MARRIED PERSON TAX PAYABLE

SINGLE PERSON TAX PAYABLE

Salary	Now	25%	23%
£8,000	£1,135	£1,014	£933
£9,000	£1,405	£1,264	£1,163
£10,000	£1,675	£1,514	£1,393
£12,000	£2,215	£2,014	£1,853
£15,000	£3,025	£2,764	£2,543
£18,000	£3,835	£3,514	£3,233
£20,000	£4,375	£4,014	£3,693
£25,000	£6,155	£5,264	£4,892
£30,000	£8,485	£7,875	£7,503
£40,000	£13,631	£12,858	£12,486
£50,000	£19,381	£17,858	£17,486

Salary	Now	25%	23%
£8,000	£1,505	£1,370	£1,260
£9,000	£1,775	£1,620	£1,490
£10,000	£2,045	£1,870	£1,720
£12,000	£2,585	£2,370	£2,180
£15,000	£3,395	£3,120	£2,870
£18,000	£4,205	£3,870	£3,560
£20,000	£4,745	£4,370	£4,020
£25,000	£6,812	£6,286	£5,894
£30,000	£9,170	£8,570	£8,198
£40,000	£14,384	£13,570	£13,198
£50,000	£20,203	£18,570	£18,198

MONEYBAGS Nigel Lawson is the richest Chancellor of the Exchequer for 20 years. He wants to earn the reputation as a tax reforming chancellor and in two months he has the opportunity of a lifetime. He has been told by some high powered advisers not to be too

extravagant. While Britain's economy is strong, uncertainties elsewhere should encourage him to save a little for a rainy day. Despite that, however, it seems virtually certain that he will cut the basic rate of tax by 2p in the £ to 25p. Optimists suggest he

will even reduce the rate to just 23p. He also has ample scope to slice the top tax rates by 10 per cent to 50 per cent. Our tables above show just how much better off you could be whichever way the chancellor decides to slice the cake on Budget Day.

Assumes Single personal allowance increased 4% to £2,520. Assumes Married personal allowance increased by 4% to £3,845. Assumes bands increase by 4%. Assumes top rate of 50%.

33
Pse put this
with the related
App. on bf. (viz
B/BST's relevant note)

FINANCIAL TIMES

Revenue concerned over bond tax avoidance plan

BY BARRY RILEY

THE INLAND Revenue is concerned about the growing incidence of tax avoidance through sophisticated use of indexation concessions granted in Schedule 19 of the 1985 Finance Act.

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For instance, Lloyd's syndicates have invested large sums from their premium income, perhaps more than £2bn, in index-linked bonds issued by US organisations such as the Student Loan Marketing Association (Sallie Mae).

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There have been many disputes in the past arising from attempts to avoid these high rates. Such attempts have usually involved converting income to capital, for instance, through the once widespread but now forbidden practice of "bond washing."

It is understood that the potential of the index-linking mechanism has been discovered by some multinational corporate treasurers who use offshore intermediary companies to transfer index-linked UK loans to subsidiaries in highly taxed countries where the interest on the borrowings is deductible.

THE TIMES

Taxation measure refused hearing

At attempt to bring in a Bill to end the taxation of personal income at higher than standard rate was defeated in the Commons.

Sir Brandon Rhys Williams (Kensington, C) was refused leave to bring in his Bill under the 10-minute rule procedure by 180 votes to 58 votes - majority, 122.

He said that it was wrong to use the tax system to punish success. The economy was not so successful that it could afford to drive its most active entrepreneurs offshore.

The only people who would suffer as a result of the reform he suggested were the armies of professional people who advised on tax avoidance. The higher-rate tax bands represented the survival of class-war attitudes that had no place in modern Britain.

He suggested that the new standard rate of taxation, to include national insurance

contributions, should be set at not more than 35 per cent.

Mr John Battle (Leeds West, Lab), opposing the Bill, said that it would mean the tax system increasingly favouring the rich.

Mr Jeremy Corbyn (Islington North, Lab) was refused leave by the Speaker (Mr Bernard Weatherill) to force an emergency debate on a decision by the Home Secretary (Mr Douglas Hurd) to deport six Sri Lankan Tamils.

Mr Corbyn said that Mr Hurd had written to the solicitor representing the Tamils refusing them political asylum and saying that it was now safe for them to return to Sri Lanka. That was not the case. Many Tamils were still being killed in the continuing communal violence.

As the decision could affect the cases of a further 2,500 Tamils in Britain, Mr Hurd should be required to appear before the House so that it could be challenged.

61



INLAND REVENUE
STATISTICS DIVISION
SOMERSET HOUSE

FROM: R J EASON

DATE: 4 FEBRUARY 1988

copy no 2 of 38

CHANCELLOR OF THE EXCHEQUER

INCOME TAX - OPTION 3

... 1. As requested at the overview meeting on 1 February, I attach a table showing the real increases since 1978-79 in the main personal allowances if Option 3 were introduced in 1988-89. Real increases are calculated by reference to the forecast change in the RPI over the appropriate financial years.

cc. Principal Private Secretary

Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr J Anson
Sir A Wilson
Mr I Byatt
Mr M C Scholar
Mr R Culpin
Mr P Sedgwick
Mr J Odling-Smee
Mrs C Evans
Mr A Hudson
Mr P McIntyre
Mr P Cropper
Mr A Tyrie
Mr M Call
Miss C E C Sinclair
Mr C J Riley
Mr Urwin (Customs & Excise)
Mr Knox (" & ")

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Calder
Mr Lewis
Mr Mace
Mr Cayley
Mr Eason
Mr Ko
Miss White
PS/IR

2. The table also shows changes to the first higher rate threshold (in terms of taxable income) and to the starting point for higher rate tax for married men and for single people, taking account of allowances. Real increases up to 1987-88 are given for comparison.

3. The main conclusions are that, under Option 3, both the married man's allowance and the single allowance would be, in real terms, over 25% or a quarter higher than they were in 1978-79. And the starting point for higher rate tax would be about 20 per cent higher for both married and single people.

4. The changes between 1987-88 and 1988-89 under Option 3 are not equal to the extra increase in allowances of 3.7%, because of statutory rounding and because the real increases are calculated from financial year averages of the RPI. For 1988-89, the growth in the RPI over 1987-88 is currently forecast to be 4.5%.



R J EASON

BUDGET SECRET - TASK FORCE LIST

REAL⁽¹⁾ INCREASES IN PERSONAL ALLOWANCES
AND FIRST HIGHER RATE THRESHOLD
SINCE 1978-79

	to 1987-88 %	to 1988-89 under Option 3 %
Single and wife's earned income allowance	22.6	26.1
Married man's allowance	23.1	27.2
Additional personal allowance	24.1	29.1
Aged single allowance		
65-79	13.4	16.6
80 and over	17.6	21.4
Aged married allowance		
65-79	12.2	15.7
80 and over	16.3	19.6
Aged income limit	22.0	26.3
Higher rate threshold	11.4	19.2
Starting point for higher rate tax		
- married man	13.3	20.5
- single	12.7	19.9

(1) Based on changes in the RPI for financial years.

B U D G E T C O N F I D E N T I A L



FROM: G R WESTHEAD
DATE: 4 February 1988

PS/CHANCELLOR

cc PS/Financial Secretary
Mr Scholar
Mr Culpin
Mr C J Riley
Mr M Williams
Miss Sinclair
Mr Graham - Parly Counsel

Mr Painter - IR
Mr Johns - IR
Mr Beauchamp - OTO
Miss Hill - IR
PS/IR

Chy
Content to include this
in the F Bill?

gwk

H 472

BS 353: CAPITAL GAINS AND FARM OUTS: DRILLING COSTS

The Economic Secretary has held a meeting with officials to discuss Miss Hill's minute of 28 January. A note of the meeting is attached.

2. As a result, the Economic Secretary concludes that it would be desirable to legislate in this year's Finance Bill to prevent oil companies from enjoying more than one tax relief associated with drilling costs - they should either retain the Scientific Research Allowance or get the Capital Gains deduction, but not both. The Economic Secretary thinks that the changes proposed would fit in well with other changes we are making in this area. The industry would be expected to be broadly content with the measure, which would require a $\frac{1}{2}$ page of Finance Bill space to add to the 2 pages or so already planned on CGT.

Guy Westhead

GUY WESTHEAD
Assistant Private Secretary

B U D G E T C O N F I D E N T I A L



FROM: G R WESTHEAD
DATE: 4 February 1988

MR JOHNS - IR

cc PS/Chancellor
PS/Financial Secretary
Mr Scholar
Mr Culpin
Mr C Riley
Mr M Williams
Miss Sinclair
Mr Graham - Parly Counsel

Mr Painter - IR
Mr Beauchamp - OTO
Miss Hill - IR
PS/IR

BS 353: CAPITAL GAINS AND FARM OUTS: DRILLING COSTS

Thank you for coming, together with Mr Evans, Mr Beauchamp and Mr Williams to discuss this Budget starter with the Economic Secretary yesterday.

2. You explained that drilling qualified for 100% relief from Corporation Tax by qualifying for the Scientific Research Allowance in all cases where an oil company was trading - ie it had made a previous discovery. But the problem was that if a company then disposed of any part of its interest in a licence, the Revenue would not generally be able to raise a balancing charge to claim back the SRA given. But the companies were arguing that under present law they ought to get a deduction for the same expenditure for capital gains. If they were right (and they might be) the company would effectively receive Corporation Tax relief for exploration drilling costs twice rather than once.

3. You explained that the Inland Revenue thought it important to ensure that a company should either retain the Scientific Research Allowance or get a capital gains deduction, but not both. The industry were not arguing for a double deduction. But the Revenue were concerned that their position might not be legally defensible. A

provision was needed to prevent both allowances being available to companies at the same time.

4. The Economic Secretary asked about timing. You said it was not crucial to legislate in 1988 but was important to have a suitable peg to hang what was a fairly minor change on. It was desirable for presentational reasons to legislate this year when it could be done as part of the legislation on capital gains and farm-outs.

5. The Economic Secretary asked about length of legislation. You envisaged about a ½ page to add to the approx 2 pages of CGT legislation already envisaged.

6. The Economic Secretary asked about the reaction of industry. You thought that it would be fairly well received since it clarified the position and companies were interested in having a choice between Scientific Research Allowance and a CGT deduction which this proposal would effectively give them. But non-traders might object because they were not eligible for one of the reliefs - the Scientific Research Allowance.

7. The Economic Secretary said that he was content for the legislation to be included in the 1988 Finance Bill, subject to the Chancellor's agreement.

Guy Westhead.

GUY WESTHEAD

Assistant Private Secretary

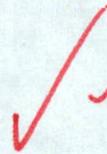


Inland Revenue

Policy Division
Somerset HouseFROM: B A MACE
DATE: 4 FEBRUARY 1988

1. MR ISAAC
2. FINANCIAL SECRETARY

Seen in draft
BAM
4/2



INDEPENDENT TAXATION AND THE SETTLEMENTS LEGISLATION

1. We have been reviewing the interaction of the proposals for Independent Taxation with the provisions in the Taxes Acts which are concerned with settlements. This note sets out briefly the main conclusions of that review and the circumstances where we think some amendment to the settlements legislation is necessary to bring it into line with Ministers' general approach to Independent Taxation. It also describes some other circumstances where there may be pressure for changes following the introduction of Independent Taxation but where we consider no amendment to the present law should be made. We should be grateful to know whether you are content with our conclusions.

The settlements provisions

2. The Taxes Acts contain a number of provisions which are designed to stop taxpayers making use of settlements of different

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Call
Parliamentary Counsel
(Mr Jenkins)

Mr Isaac
Mr Painter
Mr Cleave
Mr Lewis
Mr Corlett
Mr Beighton
Mr Mace
Mr Stewart
Mr O'Brien
Mr Bousher
Mr Golding (Claims)
Mr J C Jones
Miss Dyall
PS/IR

kinds to avoid liability to tax. The general approach is that where the settlement satisfies certain tests - if, for example, the settlement can be revoked, is made on a child of the settlor (with certain exceptions) or if the settlor (or his spouse) retain an interest in the settlement or the property which has gone into the settlement - the income from the settlement is treated either as being the income of the settlor for all tax purposes, or in some cases, as his income for the purpose of determining his higher rate tax liability. For the most part we think that these provisions will operate satisfactorily under Independent Taxation without amendment. But there are two aspects where we think some changes are needed.

Gifts from one spouse to another

3. Ministers have taken the view that if one partner in a married couple transfers the ownership of income-bearing assets absolutely to the other that transfer should be effective for tax purposes, so that the income would thereafter be taxed as that of the spouse to whom the assets had been transferred. In most cases the settlements legislation would not interfere with this but the effect of one of the provisions could be that certain gifts from one spouse to another would be treated as settlements so that the income from the property transferred would be treated for higher rate tax purposes as the income of the spouse who made the transfer. That is not the result which is wanted. We shall therefore need to amend the definition of "settlement" for this provision so that an "out and out gift" of income-producing property from one spouse to another is not of itself a settlement.

Settlements out of jointly owned property

4. A number of the settlements provisions contain rules to cope with the situation where a settlement is made by more than one person. However we doubt whether these are adequate at present to cope with the situation under Independent Taxation where a settlement is funded out of assets in the joint beneficial

ownership of husband and wife. You will recall from the discussion of this issue in my submission of 18 December on jointly held property that where property is in the joint beneficial ownership of the spouses they are both jointly entitled to the whole of the capital and the income arising from it and there is no basis in general law for dividing the income (or the capital) between the partners either equally or in some other proportion.

5. We would therefore propose that where income or property in a settlement is provided by a husband and/or wife out of assets in joint beneficial ownership each would be treated for the purposes of the relevant settlements provisions as having provided half. This is a somewhat narrower rule than we are proposing for the treatment of income from jointly held property; and because it deals only with the case where the property is held in joint beneficial ownership there is no need to provide for an alternative division to deal with cases where the ownership of the asset is other than 50:50. If the couple have already demonstrated for other purposes that the ownership of a jointly held asset is not 50:50 then any settlement made out of that asset will not be affected by this rule (since the property will not be in joint beneficial ownership). Each of the partners will be free to settle what they like out of their part of the asset. That accords with the general law and there seems no justification for overriding it.

6. We think there are good grounds for taking a slightly different route here than in the treatment of income from jointly held property. In that case you are proposing that all income from jointly held property should be divided equally between the spouses unless they can demonstrate that a different division is appropriate. This is necessary to cater for the large numbers of couples who have never given any thought to the precise beneficial ownership of the assets held in their joint names. However in the cases where precisely who is the settlor is relevant for the settlements legislation the parties can be reasonably expected to have obtained, or be able to obtain, legal

advice, about the beneficial ownership of their assets.

Relationship between husband and wife for settlements purposes

7. The changes described in paragraphs 3 and 5 are the only changes which we think are needed to the settlements legislation to cope with the move to Independent Taxation. We think, however, that once the proposals for Independent Taxation are announced there may be pressure to restrict the scope of the settlements legislation where one spouse makes a settlement for the benefit of the other.

8. At present many of the settlements provisions provide that income will be treated as the settlor's for tax purposes if their wife or husband can or does benefit under the settlement in some way. It is likely to be suggested that all those references should be deleted as part of the change to Independent Taxation, so that a settlor would, in future, be taxed on the income from the settlement only if he/she could or did benefit personally. The argument would be that such a change was necessary to make the settlements provisions consistent with Independent Taxation.

9. We think that Ministers will want to resist this line of argument strongly. You will recall that in Miss Dyall's note of 2 November we drew a distinction (which you accepted) between

(i) aspects of the tax treatment of husband and wife which reflect the present system of aggregating their incomes and treating them as a single unit for tax purposes and

(ii) aspects which flow from the social and economic relationship between husband and wife and recognise the married couple as a social unit.

Taking account of this distinction you recognised that it was right to treat husband and wife independently in computing their tax liabilities in relation to their transactions other than with such other but unrealistic to treat husband and wife as

completely separate for all tax purposes, for example for the purposes of the definition of "connected persons".

10. We think that the same principle - looking at the social and economic relationship between husband and wife - applies to the settlements provisions. It is unrealistic not to recognise the close community of interest between husband and wife in these circumstances and we should therefore continue to provide that settlements are "caught" by the legislation even when they benefit a spouse rather than the settlor personally. This is not inconsistent with treating the spouses as independent persons for the purpose of computing their individual tax liabilities. Ministers are ensuring that under Independent Taxation husbands and wives will not be able to avoid tax by covenanting income between them; maintaining the settlements provisions in their present form means that more sophisticated taxpayers will not be able to take advantage of trusts to achieve a similar result. Were the present rules to be changed, a wealthy husband could create a settlement under which his wife (but not himself) had a discretionary interest in the trust capital or income, and so divest himself of liability to tax on the income from the settled property. The trustees would then be free to meet a whole variety of the couple's living expenses as a result of the wife's interest. In economic terms, that would benefit the husband just as much as if he had been the discretionary beneficiary himself. Moreover the potential for new avoidance by the wealthy if the settlements rules were changed would be virtually unlimited. Couples could use settlements with trustees resident in a tax haven and foreign sources of income thereby effectively avoiding all UK tax on the family's entire investment income.

Other possible pressure for change

11. There might also be pressure for a more limited change to settlements rules discussed in paragraph 8. It might be suggested that where only a spouse rather than the settlor could benefit, the legislation should be amended so that any income "caught" by the provisions was deemed to be taxable on the spouse

rather than on the settlor. It might be said that the same tax result could be achieved by, for example, the husband making an "out and out gift" to his wife, and the wife then making the settlement.

12. Here again, however, we do not think such a change would be justified. The reasons set out in paragraph 10 would apply here also: except that in this case the change would result in the settlement income being taxed at the wife's tax rates instead of the husband's rather than liability being avoided altogether. But in addition the argument that the change would have the same effect as if the husband had gifted the property to the wife and she had made the settlement overlooks the very different legal implications of the alternative route. If the husband makes a gift to the wife and she then makes the settlement that is her choice and she is voluntarily taking on any liability which the settlements legislation imposes (and the task in some cases of obtaining a refund of the tax payable from the (possibly non-resident and unco-operative) trustees). It would be very difficult to justify legislation which enabled a husband to impose such a liability on his wife without her consent. An extreme example of this situation would be where the husband created a settlement giving his mistress a life interest in the income and his wife a discretionary interest in the capital. Under the proposed change, the whole of the trust income would then be the wife's: without the change it would be the husband's. If the legislation were changed the only way the wife could get out of the liability would be by ending the marriage.

13. There is, however, one circumstance where we think there might be a case for a further change in the settlements legislation. This is where a husband makes a settlement giving his wife a life interest in the settlement income, but retains absolutely no interest in the income or property himself. In that case it is arguable that he has made an "out and out gift" which should be recognised as tax-effective. However this situation falls outside the change for "out and out gifts" which we are proposing in paragraph 3 of this note since the husband

has not given his wife the totality of the interest he held in the assets settled, even though he has parted with that interest entirely. The effect in this case would be that the wife would be taxable on all the settlement income at the basic rate but it would be the husband's for higher rate purposes. Our advice would be to do nothing about this effect initially but that Ministers should be prepared to give consideration to including it in any "out and out gift" exclusion from the settlements legislation if pressure were to build up for such a change. If the change were made the whole of the income received by the wife from the settlement would then be treated as hers for all tax purposes.

Points for decision

14. (i) Are you content for us to instruct Parliamentary Counsel to amend the settlements legislation on the lines suggested in paragraphs 3 and 5 above?
- (ii) Are you content for us to make no changes to the provisions as they effect the relationship between husband and wife (with the possible exception of the relatively small change mentioned in paragraph 13 which might be made if pressure built up)?

B A Mace

B A MACE



FROM: J J HEYWOOD
DATE: 4 February 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Peirson
Miss Sinclair
Mr McIntyre
Mr Riley
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill IR
Mr Isaac IR
Mr Painter IR
Mr Mace IR
PS/IR

pay

[Red scribble]

ADDITIONAL PERSONAL ALLOWANCE

behind | The Financial Secretary has discussed Mr Mace's minute of 1 February with officials. He has also seen your minute of 2 February, Mr Judge's of 3 February and Mr Cropper's of 3 February.

Timing of the Change

2. The Financial Secretary is content for the change in the APA rules to be made effective from April 1989 rather than from April 1990. However, Mr Mace has suggested that this issue may need to be reconsidered in due course. The Financial Secretary will take this forward.

Change to the Rules

3. The Financial Secretary is content with the Revenue's thinking on how the APA changes should be defined in legislation.

BUDGET SECRET: TASK FORCE LIST

Incapacitated Wives

4. The Chancellor asked for the Financial Secretary's views on whether new claims for the APA for incapacitated wives should be ended from April 1990 or whether the APA for incapacitated wives should be retained and extended so that wives with incapacitated husbands could also claim it.

5. The Financial Secretary shares the view expressed by the Paymaster General and Peter Cropper that the APA for incapacitated wives should be withdrawn from April 1990 except for existing claimants. He would favour the more generous transitional arrangements for existing claimants described in Mr Mace's paragraph 9 (Option 2).

6. The Financial Secretary believes that several factors point to withdrawing the APA for incapacitated wives:

- (i) Only a very small number of men are entitled to claim this allowance (fewer than 10,000 at present). There is, therefore, a case for "tidying up" the system by abolishing another minor relief;
- (ii) If we do not withdraw it we would probably have to extend it to the wives of incapacitated husbands. It would look odd to extend a rather anachronistic tax relief in a tax reforming Budget;
- (iii) There must be a presumption against building into the new tax system minor tax reliefs which are very restrictive indeed;
- (iv) Since the allowance was introduced in 1960 the scope of benefit provision for the long-term sick and disabled has been considerably extended.

BUDGET SECRET: TASK FORCE LIST

BUDGET SECRET: TASK FORCE LIST

- (v) Even for a higher rate taxpayer with an incapacitated wife the weekly value of the APA (£10.50) is quite small in relation to the 1987 levels of benefit entitlement. Severe Disablement Allowance, for instance, is £23.75 per week.
- (vi) There would be no losers except those who would have had the APA from 1990/91 had it not been withdrawn.

7. Nevertheless, although the Financial Secretary believes these arguments tilt the balance in favour of withdrawing the APA he thinks we will be vulnerable to attack from the Disability Lobby. They will argue that the existing benefit provision is inadequate and far from improving the provision for the disabled, the Government was worsening the situation by removing a tax allowance targetted on the very hard cases - and all this in the context of a 'give-away' Budget for the rich.

8. The Financial Secretary thinks we will just have to face this criticism out. But he is not convinced that the introduction of independent taxation itself will be much help in justifying the change. The Financial Secretary does not think that the provision of the APA on top of the MCA and a single person's allowance is any more anomalous per se under independent taxation than it is under the existing regime.

9. Therefore, although the Financial Secretary favours withdrawal of the APA for incapacitated wives, he believes that our defence of this would have to rest on the clutch of points in paragraph 6 rather than upon the consequences of independent taxation.

9.12

JEREMY HEYWOOD
Private Secretary

BUDGET SECRET: TASK FORCE LIST

FROM: A G TYRIE

DATE: 4 FEBRUARY 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Ms Peirson
Miss Sinclair
Mr Macintyre
Mr Riley
Mr Battishill
Mr Cropper
Mr Call

ADDITIONAL PERSONAL ALLOWANCE

The Chancellor asked for views on Mr Mace's submission of 1 February.

Clearly we don't want to extend this bizarre relief to wives of incapacitated husbands. We should be aiming to get rid of it. This relief is a relic of an era when only the rich paid tax and most of them had servants. It seems that this element of the 'house-keepers' allowance', originating in 1918, clung on in the tax system by attaching itself to the APA in 1960.

Since Option 2 featherbeds the removal of the relief by retaining it for existing claimants I think it would make abolition of the allowance much easier politically. Mr Mace also thinks this is operationally simpler, so it looks the best bet.

PP *Rcj.*
A G TYRIE

COPY NO 1 OF 31 COPIES

FROM: M C SCHOLAR
DATE: 5 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

- cc Principal Private Secretary
- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Sir Geoffrey Littler
- Mr Anson
- Sir Anthony Wilson
- Mr Byatt
- Mr Culpin
- Mrs Lomax
- Mr Peretz
- Mr Odling-Smee
- Mr Sedgwick
- Miss Evans
- Mr Hudson
- Mr Cropper
- Mr Tyrie
- Mr Call
- Miss Sinclair
- Mr Riley
- Mr Battishill - IR
- Mr Isaac - IR
- Mr Painter - IR
- Mr Unwin - C&E
- Mr Knox - C&E

Handwritten notes:

W/Chc (P.M.S. + some of com.)
 etc. (P.M.S. + some of com.)
 How to take up (P.M.S. + some of com.)
 US v UK rates

Other notes:

April 1988
 M.C.S.

CAPITAL GAINS TAX: MARKET IMPLICATIONS

... I attach a letter from the Bank of England which gives their views on the market implications of the proposed capital gains tax changes.

Handwritten notes:

Michael was a bit disappointed that they took a rather narrow view of what they had been asked to advise on - but chance to poke @ meeting.

MCS

M C SCHOLAR

Handwritten signature

BUDGET SECRET: TASK FORCE LIST

GILT-EDGED DIVISION HO-G

Telephone 01-601 4766

BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

5 February 1988

C J Riley Esq
H M Treasury
Parliament Street
London
SW1P 3AG

rel (JR) 652

COPY NO 1 OF 4

Dear Chris

REFORM OF CAPITAL GAINS TAX

not copied to us.

Thank you for your letter of 2 February with your paper on CGT Costings.

We agree with the basic methodology and the resulting analysis, except, as discussed below, in relation to forestalling where we would wish to qualify the figuring in Annex D. Similarly, we would in general go along with the costings in your paper: we have no real means of deriving alternative assumptions to challenge those on which your figuring is founded.

You asked first about stock market turnover. Apart from the forestalling point, which relates only to this fiscal year, we think that stock market turnover will be affected not just by the effective capital gains tax rate changes on their own (which is what your paper deals with) but by shifts between capital-appreciating and income-yielding assets as a result of the higher rate income tax changes per se and relative to capital gains tax changes. To give an example, building society and bank deposits and some forms of national savings are not subject to capital gains tax but will benefit from the reduction in the maximum rate of income tax to 40%. The encouragement to switch into these assets out of say equities is increased further where

the effective capital gains tax rate rises. These other effects may not make much difference to the costings since we imagine the income tax effect is measured elsewhere. But they will tend to add something to stock market turnover.

You also asked about the state of the market. We obviously agree that this is important. If a market fall is expected, there would clearly be an incentive for more selling generally, and forestalling would be greater to the extent that post-82 holders will sell now, because they can realise their existing gains at a lower tax rate. Pre-82 holders will face a more difficult choice of weighing the benefit of rebasing against the expected lower asset price and higher tax rate. Having said that, we cannot offer a better basic assumption than that in paragraph 3 of your letter ie that share prices will rise broadly in line with inflation over the next three years.

You asked also about the effects on equity prices. Here too we think you should allow for some switching out of equities into income-yielding investments. As against that, any depressing effect on equity prices will be offset by the presence in the market of pension funds, insurance companies etc who are and will remain indifferent as between income and capital gains. This effect of course would tend to dampen equity price movements which, we agree, should not be very large. There could also be price movements between lower and higher coupon gilts, for example, but there is anyway some anticipation of these and again we would not see such price changes as particularly disturbing.

As regards forestalling, as I mentioned to you, we are inclined to think that the forestalling effect will be rather larger than you seem to allow for. First, you appear to have ignored the fact that anyone with a pre-1982 loss will tend to sell in the three weeks before 6 April 1988 to crystallise their loss, as otherwise it will be wasted. Second we think that the 90% figure^{*}, while appreciating how it is derived, is probably too high, given that the financial press will be full of advice aimed at higher rate taxpayers to bed and breakfast. Thirdly, taking the last sentence of paragraph 33, basic rate taxpayers may well forestall

(* see Annex D, it's assumed that 90% of those who might gain, don't forestall.

is it?

?? can't be many

if their gain is large enough to bring them significantly into the higher rate band. We would not want to exaggerate these effects but we suspect overall they may be somewhat larger than you imply.

As agreed with Michael Scholar, I am not copying this letter except to Eddie George here; you said you would look after circulation of copies.

Yours sincerely

Robin Mc Connachie

R I McConnachie



FROM: J M G TAYLOR
DATE: 5 February 1988

APS/ECONOMIC SECRETARY

cc PS/Financial Secretary
Mr Scholar
Mr Culpin
Mr C J Riley
Mr M Williams
Miss Sinclair
Mr Graham - Parly Counsel

Mr Painter - IR
Mr Johns - IR
Mr Beauchamp - OTO
Miss Hill - IR
PS/IR

BS 353: CAPITAL GAINS AND FARM OUTS: DRILLING COSTS

The Chancellor has seen your minute of 4 February. He agrees with the Economic Secretary's conclusion that we should legislate in this year's Finance Bill to prevent oil companies from enjoying more than one tax relief associated with drilling costs, as suggested.

JH

J M G TAYLOR



Inland Revenue

Policy Division
Somerset HouseFrom: I R SPENCE
Date: 5 February 1988

1. MR MCGIVERN 
2. FINANCIAL SECRETARY 

**SHORT-TERM COST-OF-LIVING BONDS - FT ARTICLE OF 3 FEBRUARY -
"REVENUE CONCERNED OVER BOND TAX AVOIDANCE PLAN"**

1. You asked for a note on Barry Riley's article about tax avoidance through the use of short-term indexed bonds by multi-nationals and Lloyds.

I. MULTI-NATIONALS

2. The use/abuse of indexation relief by multi-nationals using off-shore intermediary companies is one of the family of intra-group transfer devices (exploiting indexation) dealt with in Mr Cayley's 12 October note on Starter 258. Mr Cayley's note did not mention this particular device, because we were not aware of it at the time. But the remedy that Ministers have approved goes wide enough to catch this newcomer to the family of intra-group avoidance devices.

II. LLOYDS

3. Lloyd's use of US indexed linked bonds to avoid tax liability on their US investments is, of course, one of the points Ministers have been considering on the issue of Lloyd's CG treatment. The article identifies the main device -

cc PS/Chancellor
Mr Culpin
Mrs Lomax
Mr Cropper

Chairman
Mr Painter
Mr McGivern
Mr Spence
Mr Cayley
Mr Skinner
PS/IR

investment of Lloyd's US premium income in US short-term indexed bonds, issued by tax-exempt institutions like Sallie Mae. Details of the device are in my 10 December note - paragraph 21 of attachment. The article's estimate of Lloyd's investments of £2 billion plus in these bonds is not far off our own estimates of the scale of Lloyd's activity in these instruments.

4. Source of Barry Riley's information? In case it needs saying, not from here - and clearly not from Lloyds (see paragraph 5 below). Our guess is that Barry Riley has pieced it together from City Accountants (perhaps of the whistle-blowing tendency). Word has probably got round that the Revenue have been asking questions about the details of these index-linked transactions.

5. The article has provoked an approach from Lloyds centrally. They were worried that the Revenue's "concern" - as the article put it - might be translated into action. The implication was that they were worried that syndicates use of these index bonds (and the publicity it had attracted) might influence Ministers decision on Lloyd's CG treatment, following the discussions at your 20 January meeting with Murray Lawrence. We were, of course, noncommittal about this. Lloyds volunteered that they were considering imposing a limit on syndicates use of US indexed linked bonds. This was in part because they were concerned on the prudential side that syndicates were getting over-exposed in this area. They were particularly worried about a new \$1/2 billion loan directed at Lloyd's syndicates. They said the other reason for their thinking about imposing a limit was their recognition that the Revenue had an understandable concern about the scale of Lloyd's activity in this area.

6. The Chancellor said at Monday's overview meeting (when it was decided not to change Lloyd's CG treatment), that it should be made clear to Lloyds there is no guarantee that the present

CG treatment will remain unchanged, and that Lloyd's use of the present individual CG basis would be monitored. Judging by what Lloyds have just said to us, they will not be surprised to get this message, and may exert themselves to limit the scale of syndicate activity in US index linked bonds. It is a matter for Ministers judgement whether the message is made public, in Budget/Finance Bill debates, or delivered privately. The fact that Lloyd's exploitation of indexation is now in the Press may strengthen the case for making the point in the House.



I R SPENCE

FINANCIAL TIMES

Revenue concerned over bond tax avoidance plan

BY BARRY RILEY

THE INLAND Revenue is concerned about the growing incidence of tax avoidance through sophisticated use of indexation concessions granted in Schedule 19 of the 1985 Finance Act.

Lloyd's syndicates are subject to high rates of income tax, normally the top rate of 60 per cent, as a reflection of the liabilities of the wealthy syndicate members.

Lloyd's underwriting syndicates and certain multinational companies have discovered that their investment returns can be enhanced, or tax payments reduced, if they use short-term cost-of-living bonds. Since 1985, such bonds have qualified for an indexation allowance before capital gains tax liability is calculated.

There have been many disputes in the past arising from attempts to avoid these high rates. Such attempts have usually involved converting income to capital, for instance, through the once widespread but now forbidden practice of "bond washing."

For instance, Lloyd's syndicates have invested large sums from their premium income, perhaps more than £2bn, in index-linked bonds issued by US organisations such as the Student Loan Marketing Association (Sallie Mae).

It is understood that the potential of the index-linking mechanism has been discovered by some multinational corporate treasurers who use offshore intermediary companies to transfer index-linked UK loans to subsidiaries in highly taxed countries where the interest on the borrowings is deductible.

cc Mr Fowler
~~Mr Spence~~
Mr Skinner
Mr Jenkinson
Mr Boston
EMCB

9

COPY NO 2 OF 31 COPIES *py*FROM: M C SCHOLAR
DATE: 5 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

cc Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr Anson
Sir Anthony Wilson
Mr Byatt
Mr Culpin
Mrs Lomax
Mr Peretz
Mr Odling-Smee
Mr Sedgwick
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Miss Sinclair
Mr Riley
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Unwin - C&E
Mr Knox - C&E

CAPITAL GAINS TAX: MARKET IMPLICATIONS

... I attach a letter from the Bank of England which gives their views on the market implications of the proposed capital gains tax changes.

MCS

M C SCHOLAR

GILT-EDGED DIVISION HO-G

Telephone 01-601 4766

BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

5 February 1988

C J Riley Esq
H M Treasury
Parliament Street
London
SW1P 3AG

rel (JR) 652

COPY NO 1 OF 4

Dear Chris

REFORM OF CAPITAL GAINS TAX

Thank you for your letter of 2 February with your paper on CGT Costings.

We agree with the basic methodology and the resulting analysis, except, as discussed below, in relation to forestalling where we would wish to qualify the figuring in Annex D. Similarly, we would in general go along with the costings in your paper: we have no real means of deriving alternative assumptions to challenge those on which your figuring is founded.

You asked first about stock market turnover. Apart from the forestalling point, which relates only to this fiscal year, we think that stock market turnover will be affected not just by the effective capital gains tax rate changes on their own (which is what your paper deals with) but by shifts between capital-appreciating and income-yielding assets as a result of the higher rate income tax changes per se and relative to capital gains tax changes. To give an example, building society and bank deposits and some forms of national savings are not subject to capital gains tax but will benefit from the reduction in the maximum rate of income tax to 40%. The encouragement to switch into these assets out of say equities is increased further where

the effective capital gains tax rate rises. These other effects may not make much difference to the costings since we imagine the income tax effect is measured elsewhere. But they will tend to add something to stock market turnover.

You also asked about the state of the market. We obviously agree that this is important. If a market fall is expected, there would clearly be an incentive for more selling generally, and forestalling would be greater to the extent that post-82 holders will sell now, because they can realise their existing gains at a lower tax rate. Pre-82 holders will face a more difficult choice of weighing the benefit of rebasing against the expected lower asset price and higher tax rate. Having said that, we cannot offer a better basic assumption than that in paragraph 3 of your letter ie that share prices will rise broadly in line with inflation over the next three years.

You asked also about the effects on equity prices. Here too we think you should allow for some switching out of equities into income-yielding investments. As against that, any depressing effect on equity prices will be offset by the presence in the market of pension funds, insurance companies etc who are and will remain indifferent as between income and capital gains. This effect of course would tend to dampen equity price movements which, we agree, should not be very large. There could also be price movements between lower and higher coupon gilts, for example, but there is anyway some anticipation of these and again we would not see such price changes as particularly disturbing.

As regards forestalling, as I mentioned to you, we are inclined to think that the forestalling effect will be rather larger than you seem to allow for. First, you appear to have ignored the fact that anyone with a pre-1982 loss will tend to sell in the three weeks before 6 April 1988 to crystallise their loss, as otherwise it will be wasted. Second we think that the 90% figure, while appreciating how it is derived, is probably too high, given that the financial press will be full of advice aimed at higher rate taxpayers to bed and breakfast. Thirdly, taking the last sentence of paragraph 33, basic rate taxpayers may well forestall

if their gain is large enough to bring them significantly into the higher rate band. We would not want to exaggerate these effects but we suspect overall they may be somewhat larger than you imply.

As agreed with Michael Scholar, I am not copying this letter except to Eddie George here; you said you would look after circulation of copies.

Yours sincerely

R I McConnachie

R I McConnachie



FROM: J M G TAYLOR
DATE: 5 February 1988

APS/ECONOMIC SECRETARY

cc PS/Financial Secretary
Mr Scholar
Mr Culpin
Mr C J Riley
Mr M Williams
Miss Sinclair
Mr Graham - Parly Counsel

Mr Painter - IR
Mr Johns - IR
Mr Beauchamp - OTO
Miss Hill - IR
PS/IR

BS 353: CAPITAL GAINS AND FARM OUTS: DRILLING COSTS

The Chancellor has seen your minute of 4 February. He agrees with the Economic Secretary's conclusion that we should legislate in this year's Finance Bill to prevent oil companies from enjoying more than one tax relief associated with drilling costs, as suggested.

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR

pup



Copy No. 1 of 8

FROM: MARK CALL
DATE: 5 FEBRUARY 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Cropper
Mr TyriePOST-PRAYERS DISCUSSION: FRIDAY 5 FEBRUARY1. APA FOR MEN WITH INCAPACITATED WIVES

It was proposed that this, together with other minor allowances, would be abolished in the light of other changes to the APA. Those currently receiving the allowance would continue to do so. The Chancellor asked for views. In discussion it was noted that there were approximately 10,000 recipients of this very restrictive allowance. Those who kept the allowance would in future have it adjusted in line with the MCA. The Economic Secretary and the Chief Secretary had not seen the papers, and would let the Chancellor have their views in the course of the day.

2. EXCISE DUTIES

There was no pressing need for a final decision here, and the options could be kept open for another 3 weeks. There was a discussion of possible changes to motoring, drink and tobacco duties.

3. BUDGET PRESENTATION: ALLOCATION OF SUBJECT AREAS

The Chancellor had made a provisional allocation, and asked for Ministers views before the Budget Overview meeting on Monday.

Mc
MARK CALL

COPY NO 4 OF 6

FROM: MISS M HAY

DATE: 5 February 1988

MR CULPIN

cc Miss Sinclair
Miss Evans
Mr Hudson
Mr Sparkes

INHERITANCE TAX

Proposal: raise threshold to £107,00
tax all transfers at uniform rate of 40 per cent.

This compares with current regime:

<u>Slice</u>	<u>Rate on slice</u>
£ 90,000	Nil
£ 50,000	30%
£ 80,000	40%
£110,000	50%
Remainder	60%

In answer to your specific question, the threshold of £107,000 was chosen because it results in no losers as compared with statutory indexation of the current bands at existing rates. (A reasonably large threshold increase is needed to achieve this because the marginal rate of estates in the £140,000 to £220,000 will be increased.)

One major benefit of this increase is that it reduces the estimated number of IHT estates from 31,000 to 24,500 in 1988/89.

A supplementary question is - why 40 per cent.?

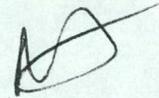
Benefits of a single rate of 40 per cent are:

- simplification of the rate structure
- relief in form of higher threshold rather than reduced rate takes more estates out of IHT altogether

BUDGET SECRET : TASK FORCE

- lower top rate reduces distortions (less incentive to contrive to avoid paying IHT)
- rates of IT, CGT, IHT brought into line - arguably reduces distortionary behaviour to convert income to capital etc

It could be argued that a starting rate of 40% is too high, but this is not like earnings and incentives - the choices are rather more limited. Also it is perhaps relevant to look at average rates - average rate on small to medium estates much lower than 40%.



MARY HAY



FROM: A C S ALLAN
DATE: 5 February 1988

MR MACE

cc PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Cropper

Mr Isaac - IR
PS/IR

ADDITIONAL PERSONAL ALLOWANCE

The Chancellor would be grateful for advice on one additional option on the APA, as soon as possible. This is to withdraw the APA over the same range of incomes as the MCA is to be withdrawn. The objective would be to reduce another tax penalty on marriage, accepting that it would also hit rich single parents, and that two earner co-habiting couples could make sure that the lower earner claimed the APA. The number of people affected would presumably be small, but so should the additional cost to the Revenue.

A C S ALLAN

(mpw)

mpw

BF 19/2

to h



Tell Tim

Ch/ When you have spoken to Mr Rifkind our officials will want to talk to SED officials to take things further. One small operational problem is that the likely "key man" in Edinburgh won't be down in London for some time unless we drag him down specially - and difficult to explain why over an open phone line.

you could ask

So very helpful if Mr Rifkind to debrief and have

Mr Hillhouse get in touch with Brian Gilmore or Tim Burr here.

WAS w

mpw

17/2



FROM: ECONOMIC SECRETARY
DATE: 5 February 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Peirson
Miss Sinclair
Mr McIntyre
Mr Riley
Mr Cropper
Mr Tyrie
Mr Call

*Ch. You have previous pp. on this.
(see also Mr Tyrie's note, 6/1/88)*

*HT
5/2*

Paym

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Mace - IR
PS/IR

ADDITIONAL PERSONAL ALLOWANCE

You asked for my views on Mr Mace's submission of 1 February.

2. I am not convinced that it is worth the candle to abolish the APA for an incapacitated wife. To do so would be the equivalent of a negative lollipop: disproportionate political flack for negligible financial gain.

3. The Financial Secretary argues and you agree that the move to independent taxation neither requires its removal nor makes it more anomalous (since the married man's allowance continues) so the sex equality argument is emasculated.

4. I think that to remove anomalies just because they are anomalies is not a sufficient justification for incurring political flack.

5. The simplification argument - spelt out in paragraph 9 of Mr Mace's submission would make the change worthwhile. But I cannot

see how there would be any simplification for 20 years if we adopt option (ii). It would still be necessary for all officers to know about the allowance and to include the details in all publications.

6. I think the main flack would come from the disablement lobby, rather than individuals. But say 1,000 husbands a year who would have become eligible under the old rules would find themselves ineligible under the new rule. Some would be drawn to contrast their position with those who obtained their APA before this Budget. This contrast would be good material for press, media and Adjournment debates.

7. I would only drop this, admittedly illogical, allowance if we can think of a positive disablement lollipop to offset it.



PETER LILLEY



Copy No. 1 of 21 Copies

FROM: CHIEF SECRETARY
DATE: 8 February 1988

CHANCELLOR

cc: Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Mr Scholar
Mr Culpin
Miss Peirson
Miss Sinclair
Mr McIntyre
Mr Riley
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Mace - IR

ADDITIONAL PERSONAL ALLOWANCES: INCAPACITATED WIVES

I have seen colleagues notes on the abolition of new APA claims by married men with dependent children whose wives are totally incapacitated. The logic of ending new claims after the change to Independent Taxation is impeccable but nonetheless, I share the reservations advanced by the Economic Secretary.

2 I do so for several reasons.

- (a) The presentational impact would be severe set against the general tenor of the Budget. Moreover, it would add to the pressures from the disability lobby for benefit recompense following the OPCS survey of the disabled. This could have a public expenditure deadweight cost of considerable size.
- (b) We are not now abolishing the APA but limiting co-habiting couples to a single APA. This will be welcomed.

BUDGET SECRET: TASK FORCE LIST

But the juxtaposition of this with withdrawing the APA for men whose wives are totally incapacitated is stark. There will be a disproportionate fuss if we appear to put double claimants (who abuse the system) in the same category as the totally incapacitated. (They, by definition are even incapable of light housework).

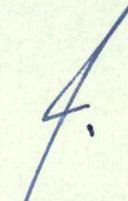
- (c) The announcement will run alongside the new Social Security system. Under this system the totally incapacitated are seen as significant losers. They lose a multiple of miscellaneous benefits and gain less in statutory entitlement in the reformed structure. Transitional protection helps but future losses are certain. Nick Scott is examining how to mitigate this problem but final decisions are not yet taken.

Abolishing APA will be seen as adding a further 'attack' on the most severely disabled.

3 All this suggests to me that we should retain APA and extend it to avoid sex discrimination. The extension is a useful lollipop!

4 Moreover, there remains the possibility that we could 'buy out' this anomaly on the back of the OPCS survey if we are forced into benefit expenditure as a result of it.

5 For now, I would accept the anomaly and avoid the disproportionate fuss.


JOHN MAJOR

Copy No. 1 of 10. *pm*FROM: MARK CALL
DATE: 10 FEBRUARY 1988CHANCELLOR *e*cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Cropper
Mr TyriePOST-PRAYERS MINUTE; WEDNESDAY 10 FEBRUARY1. BUDGET RELATED PARLIAMENTARY QUESTIONS

The Opposition appeared to be preparing the ground for the Budget, and gathering information, by putting down a series of questions. Gordon Brown, MP, had recently put down a question to ask the Chancellor what additional income a family on average earnings would receive as a result of a 2p cut in the basic rate, and a top higher rate of 40%. The reply to this question had given the information for those on half to 5 times average earnings. The Chancellor said it was important for FP to co-ordinate the answers given to such questions in the run-up to the Budget. It would be helpful if Conservative Members were to put down questions on the effect that reducing tax rates has on tax yields. Such questions might include the change in the proportion of tax paid by the top 5% of earners, or by all higher rate payers. It would be best to concentrate on historical trends, although international comparisons of higher rates of income tax would be helpful. Special Advisers would give further thought to this.

2. CAPITAL ALLOWANCES AND RIG

While he understood the political argument in favour of Capital Allowances for RIG, the Chancellor believed this should be opposed on a matter of principle. With a discretionary grant it was a

question of deciding how much a particular firm needed in grant,
and it was unnecessary to top that up with a tax relief. Because of
the relatively small sums of money involved he did not believe
there would be a major row.

MC

MARK CALL

CONFIDENTIAL

5. I am advised by Department of Transport officials that 'staged' coaches are thought to cover their track costs (existing figures are not detailed enough for them to be certain), despite the very low level of Vehicle Excise Duty which they pay. These coaches run mostly on major non-urban roads which are relatively cheaper to maintain, and as a result of their higher than average mileage, pay the major proportion of their overall tax bill as fuel duty. That said, it is almost certainly the case that these coaches do not cover their track costs by anything like the same amount as most other vehicles, and it does appear anomalous that a family saloon should pay significantly more in VED than all but the very largest of coaches.

6. Buses used on regular stopping services do not come anywhere near covering their track costs. They pay around £70-£80 in VED and receive a full fuel rebate in respect of their qualifying journeys; and the routes they use are the most expensive to maintain. If "stopping" buses were to be asked to cover track costs, this would entail either astronomical increases in VED (VED currently accounts for less than 3% of the 'gross' taxation revenue from this class) or, more likely, a restriction in the level of fuel duty rebates.

7. I understand from Transport contacts that in the run up to and during the current privatisation of the National Bus Company, senior officials there have felt disinclined to proceed with the review referred to in Mr Channon's letter. The NBC privatisation should be completed shortly, but following that, there is the proposed privatisation of the Scottish Transport Group in 1989 (and possibly the London buses in 1990).

8. Should Mr Forman's observations find favour with you, one possible way of taking matters forward would be to ask Transport Ministers to proceed with the review of the 'hackney' classes. This may then provide the detailed information which would assist us in determining the scope for ensuring that individual vehicle types cover (or more than cover) track costs. The difficulties associated with increasing the revenue from taxis (which, despite Mr Channon's letter, Transport officials think do cover track costs) and coaches may be significantly less than those relating to buses. All of this would, I suggest, have to be for the 1989 Finance Bill at earliest.

R. George Michie

R G MICHIE

ROAD TAXATION REVENUE AND ROADS COSTS IN 1987/88 : BY VEHICLE CLASS

Thousand/£ million at 1987/88 prices/ratio

Vehicle Class	Number of Vehicles	Road taxation revenue and road costs (£ million at 1987/88 prices ¹)			Road Costs	Taxes Less Costs	Taxes to costs ratio
		Road Taxes					
		Fuel Tax	VED	Total			
	Thousand						
Cars, light vans and taxis	19608	5475	2075	7550 ²	2335	5215	3.2:1
Motorcycles	1107	40	15	60	25	35	2.3:1
Buses and coaches	72	180	5	185 ³	215	.30	0.9:1
Goods vehicles over 1.525 tonnes unladen							
Not over 3.5 tonnes gvw and non-plateable vehicles	143	50	20	70	25	45	2.7:1
Over 3.5 tonnes gvw	441	960	440	1405	1095	310	1.3:1
Other vehicles ⁴	1185	105	10	115	55	65	2.2:1
All vehicles	22556	6820	2570	9385	3750 ⁵	5640	2.5:1

1. Rounded to the nearest five

2. Excludes car tax, expected to raise £1100m in 1987/88

3. Fuel tax rebate (£130m) not deducted

4. Haulage, machines, 3-wheeled motor vehicles, crown, disabled and other vehicles exempt from VED. Previously other vehicles were included with the main classes

5. Excludes £306 million allocated to pedestrians.

BF in meeting
folder. BFFROM: T J BURR
DATE: 12 February 1988BURR
→
CH/EX
12/2

- TJB*
1. SIR P MIDDLETON
 2. CHANCELLOR

copies for:
 Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary

cc Mr Anson
 Mr Kemp
 Mr Scholar
 Mr Culpin
 Mr Gilmore
 Miss Sinclair
 Mr Cropper
 Mr Tyrie
 Mr Isaac - IR
 Mr Corlett - IR
 PS/IR

Shul:

STUDENTS AND COVENANTS

At your overview meeting on 25 January, you agreed that Mr Baker and Mr Rifkind should be informed around the middle of February of the proposed change on covenanting for students. Together with the Chief Secretary and the Paymaster General, you are meeting Mr Baker and Mr Jackson on 16 February to discuss how the review of student support should be taken forward. (Briefing on that will be coming forward separately on Monday.) You have agreed that you will speak to Mr Baker alone at the start of this meeting to inform him of the change. I attach an aide-memoire of the points that you will wish to cover.

2. Mr Rifkind will not be attending the meeting, since it seems best to reach agreement with Mr Baker on the way forward on student support before opening up the subject with other Education Ministers. It will therefore be necessary to find another opportunity to speak to Mr Rifkind, if possible next week. Your office are making appropriate arrangements. (After Cabinet, we hope)

3. At the 25 January meeting you felt that knowledge of the change should if practicable be confined to one official in each of the two Departments. My submission

BUDGET CONFIDENTIAL

of 12 January suggested that Sir Peter Middleton should inform the official heads of DES and SED (Sir David Hancock and Mr Russell Hillhouse respectively). If any officials are informed it will have to be them at least, if only because they are the Accounting Officers for the relevant expenditure, and would also be responsible for maintaining security. It would however be helpful if they were allowed to inform one other official, selected by them, within each Department. It will be important to get a well informed reaction on the practical implications of running two parental contribution scales as proposed, and the two official heads of Department will not, in our judgement, be sufficiently close to the day to day running of the student awards schemes to give a confident assessment. It will of course need to be made clear that the head of Department retained full personal responsibility for preventing any leak. He will be best placed to identify a knowledgeable and fully reliable official, and we would therefore regard it as inappropriate ourselves to prescribe who that official should be.

T. J. Burr

T J BURR

STUDENTS AND COVENANTINGPoints to Make

(a) It is proposed that covenants made by individuals will in the Budget be made ineffective for tax purposes (though the existing treatment of charitable covenants will continue). Part of a major reform of the tax system.

(b) This will mean that covenants made on or after Budget day in favour of students will no longer attract tax relief.

(c) Existing covenants will be unaffected.

(d) Recognise that the parental contribution scale will need to be adjusted to compensate for the change.

(e) The best way of limiting compensation as far as possible to those who will no longer be able to obtain relief is almost certainly to apply the reduced parental contribution scale to those who newly start courses after Budget day (in practice in the 1988-89 academic year), and retain the old parental contribution scale for those who are already in higher education.

(f) This will mean running two parallel parental contribution scales for the coming academic year and the next few years on a transitional basis: the existing one; and a scale abated by the same percentage as the basic rate of tax.

(g) The abated scale would still taper the grant to zero, so there would be no compensation at top of the scale and beyond. But having got rid of the minimum grant, it would be a mistake to bring it

back. The way to introduce non-means tested support is to press ahead with loans.

(h) We need to know very urgently if DES see any serious difficulty about operating the parental contribution system on that basis.

(i) To that end Sir Peter Middleton will be explaining the decision in more detail to Sir David Hancock. For security reasons, he will have to ask the knowledge of the proposed change should be confined to not more than one additional official in the Department. Grateful if Mr Baker would not inform other DES Ministers.

(j) Mr Rifkind will be informed on the same basis, but not the Secretaries of State for Wales and Northern Ireland.

(k) Important to stress the overriding importance of avoiding a leak, which would lead to massive anticipation and would vitiate the whole change, not only for students but more generally.

(l) See no way of compensating students who do not get mandatory support or discretionary support at mandatory rates. Believe that will have to be accepted. Important thing is that no one who already has a covenant will lose the tax benefit of it.

5. The main arguments against doing this at all are probably these:

(a) Taking VED and derv duty together, coaches already cover their "track costs" (though not by as much as cars).

(b) Better 50 people on a coach than 50 people in private cars (though a VED increase would not necessarily empty the coaches).

(c) There are not that many coaches around - I think probably about 25,000.

(d) There is no money in it. VED only yields £5 million or so from all buses and coaches (see Mr Michie's table).

(e) If you want VED to wither on the vine, there is something to be said (to mix metaphors) for letting sleeping dogs lie.

There also seems to have been some Department of Transport nervousness about complicating the privatisation of the National Bus Company and the Scottish Transport Group, but I find it a bit hard to believe that a modest VED increase would be the death knell of privatisation.

6. I am not sure which way the Green vote goes. Does it assimilate coaches to juggernauts, or prefer one full coach to a lot of private cars?

7. The main arguments against acting this year are that:

- it is only four weeks before the Budget, and

- the Economic Secretary has already turned down other Department of Transport starters for lack of Finance Bill space.

BUDGET CONFIDENTIAL

8. The position in Whitehall seems to rest with a letter from Mr Channon which says that

"VED for the 'Hackney' classes - buses, coaches and taxis - is unique in falling short of track costs. There is also a case for a thorough review of the structure for these classes. But I do not propose any major changes this year."

9. Do you want to push this up the agenda for this year's Budget? If so, do you want to consult Mr Channon now? Or do you want to take him up on the suggestion of a review for next year?

X | 10. It is about time you wrote to him anyway with your conclusions on VED.



ROBERT CULPIN

Rates of Vehicle Excise Duty

The following tables give the rates of vehicle excise duty which have effect from **18 March 1987**. The notes on the vehicle licence application forms explain how and where to apply. Please read them carefully.

V149
Rev. March 87

1. PRIVATE / LIGHT GOODS VEHICLES (ie goods vehicles not over 1,525 kgs unladen)

	12 month rate £	6 month rate £
Private Vehicles, Light Vans, Estate Cars etc.	100.00	55.00
Vehicles registered before 1.1.47	60.00	33.00
Light Goods Farmers	75.00	41.25
Light Goods Showman's	75.00	41.25

2. BICYCLES, TRICYCLES, PEDESTRIAN CONTROLLED VEHICLES (not over 450 kgs)

	Over	Not Over	12 month rate £	6 month rate £
Motorcycles (with or without sidecar)	-	150cc	10.00	-
	150cc	250cc	20.00	-
	#250cc	-	40.00	22.00
Tricycles	-	150cc	10.00	-
	150cc	-	40.00	22.00
Pedestrian Controlled Vehicles (other than mowing machines)				
3 Wheelers	-	150cc	10.00	-
3 Wheelers	150cc	-	20.00	-
More than 3 wheels			20.00	-
# If first licensed before 1.1.33 (or 1.1.35 in Northern Ireland) and weighs not more than 101.6 kgs the rate is £20.00.				

3. HACKNEY CARRIAGES

Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £	Seats Up to	12 month rate £	6 month rate £
20	52.50	28.85	37	70.35	38.70	54	88.20	48.50	71	106.05	58.35
21	53.55	29.45	38	71.40	39.25	55	89.25	49.10	72	107.10	58.90
22	54.60	30.05	39	72.45	39.85	56	90.30	49.65	73	108.15	59.50
23	55.65	30.60	40	73.50	40.40	57	91.35	50.25	74	109.20	60.05
24	56.70	31.20	41	74.55	41.00	58	92.40	50.80	75	110.25	60.65
25	57.75	31.75	42	75.60	41.60	59	93.45	51.40	76	111.30	61.20
26	58.80	32.35	43	76.65	42.15	60	94.50	51.95	77	112.35	61.80
27	59.85	32.90	44	77.70	42.75	61	95.55	52.55	78	113.40	62.35
28	60.90	33.50	45	78.75	43.30	62	96.60	53.15	79	114.45	62.95
29	61.95	34.05	46	79.80	43.90	63	97.65	53.70	80	115.50	63.50
30	63.00	34.65	47	80.85	44.45	64	98.70	54.30			
31	64.05	35.25	48	81.90	45.05	65	99.75	54.85			
32	65.10	35.80	49	82.95	45.60	66	100.80	55.45			
33	66.15	36.40	50	84.00	46.20	67	101.85	56.00			
34	67.20	36.95	51	85.05	46.80	68	102.90	56.60			
35	68.25	37.55	52	86.10	47.35	69	103.95	57.15			
36	69.30	38.10	53	87.15	47.95	70	105.00	57.75			
									For each additional seat	1.05	*

4. GENERAL HAULAGE VEHICLES

Unladen Weight	12 month rate £	6 month rate £
Up to but not over		
2 tons (2,032.1 kgs)	179.00	98.45
4 tons (4,064.2 kgs)	322.00	177.10
6 tons (6,096.3 kgs)	465.00	255.75
7.25 tons (7,366.4 kgs)	608.00	334.40
8 tons (8,128.4 kgs)	743.00	408.65
9 tons (9,144.5 kgs)	869.00	477.95
10 tons (10,160.5 kgs)	995.00	547.25
11 tons (11,176.5 kgs)	1,138.00	625.90
For each additional ton or part of a ton (ton = 1,016.1 kgs)	142.00	*

5. SHOWMAN'S HAULAGE VEHICLES

Unladen Weight	12 month rate £	6 month rate £
Up to but not over		
7.25 tons (7,366.4 kgs)	151.00	83.05
8 tons (8,128.4 kgs)	180.00	99.00
10 tons (10,160.5 kgs)	212.00	116.60
11 tons (11,176.5 kgs)	244.50	134.45
12 tons (12,192.6 kgs)	277.00	152.35
13 tons (13,208.6 kgs)	309.50	170.20
14 tons (14,224.7 kgs)	342.00	188.10
15 tons (15,240.7 kgs)	374.50	205.95
For each additional ton or part of a ton (ton = 1,016.1 kgs)	32.50	*

* The six month rate of duty is eleven-twentieths of the corresponding annual rate, rounded up or down to the nearest 5p, 2.5p being rounded down.

6. AGRICULTURAL MACHINES, WORKS TRUCKS ETC.

	12 month rate £
Agricultural Machines (Locomotive Ploughing Engines, Tractors, Agricultural Tractors or other Agricultural Engines)	16.00
Fishermen's Tractors	16.00
Digging Machines	16.00
Mobile Cranes	16.00
Works Trucks	16.00
Mowing Machines	16.00

7. TRADE LICENCES

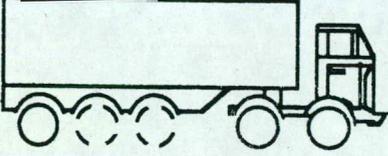
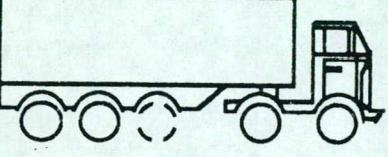
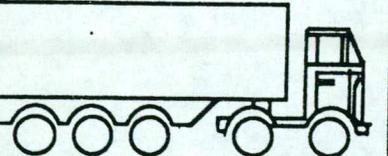
	12 month rate £	6 month rate £
Trade Licences available for all vehicles	*70.00	*38.50
Trade Licences available only for :		
Bicycles	*14.00	*7.70
Tricycles	*14.00	*7.70
Pedestrian Controlled Vehicles	*14.00	*7.70
] not over 450 kgs		
* Subject to revision. Check at Local Vehicle Licensing Office.		

THE TERM "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND

8. PLATEABLE RIGID AND PLATEABLE ARTICULATED VEHICLES not over 12,000 kgs gross

Gross Weight/ Train Weight (kgs)		Taxation Class					
		HGV		HGV Farmers		HGV Showman's	
Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
-	7,500	130.00	71.50	90.00	49.50	90.00	49.50
7,500	12,000	290.00	159.50	175.00	96.25	90.00	49.50

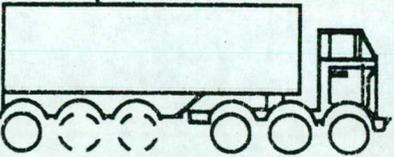
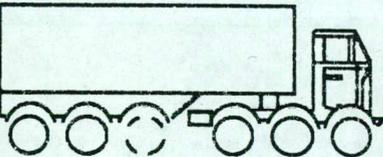
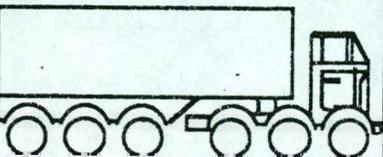
9. PLATEABLE ARTICULATED GOODS VEHICLES over 12,000 kgs gross

Type of Vehicle	Gross Train Weight (kgs)		Taxation Class							
			HGV		HGV Farmers		HGV Showman's			
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £		
TABLE A 2 axled tractive unit used with any semi-trailer(s) (1,2,3 or more axles) 	12,000	14,000	470.00	258.50	280.00	154.00	120.00	66.00		
	14,000	16,000	590.00	324.50	355.00	195.25	150.00	82.50		
	16,000	18,000	690.00	379.50	415.00	228.25	175.00	96.25		
	18,000	20,000	810.00	445.50	485.00	266.75	205.00	112.75		
	20,000	22,000	940.00	517.00	565.00	310.75	235.00	129.25		
	22,000	23,000	1,000.00	550.00	600.00	330.00	250.00	137.50		
	23,000	25,000	1,150.00	632.50	690.00	379.50	290.00	159.50		
	25,000	26,000	1,150.00	632.50	690.00	379.50	290.00	159.50		
	26,000	28,000	1,150.00	632.50	690.00	379.50	290.00	159.50		
	28,000	29,000	1,210.00	665.50	725.00	398.75	305.00	167.75		
	29,000	31,000	1,680.00	924.00	1,010.00	555.50	420.00	231.00		
	31,000	33,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25		
	33,000	34,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25		
	34,000	36,000	2,750.00	1,512.50	1,650.00	907.50	690.00	379.50		
36,000	38,000	3,100.00	1,705.00	1,860.00	1,023.00	775.00	426.25			
TABLE B 2 axled tractive unit used with 2 or more axled semi-trailer(s) only * 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75		
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50		
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50		
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50		
	20,000	22,000	550.00	302.50	330.00	181.50	140.00	77.00		
	22,000	23,000	620.00	341.00	370.00	203.50	155.00	85.25		
	23,000	25,000	780.00	429.00	470.00	258.50	195.00	107.25		
	25,000	26,000	870.00	478.50	520.00	286.00	220.00	121.00		
	26,000	28,000	1,090.00	599.50	655.00	360.25	275.00	151.25		
	28,000	29,000	Concessionary rates do not apply at these weights. Please see Table A above.							
	29,000	31,000								
	31,000	33,000								
	33,000	34,000								
	34,000	36,000								
36,000	38,000									
TABLE C 2 axled tractive unit used with 3 or more axled semi-trailer(s) only * 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75		
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50		
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50		
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50		
	20,000	22,000	440.00	242.00	265.00	145.75	110.00	60.50		
	22,000	23,000	440.00	242.00	265.00	145.75	110.00	60.50		
	23,000	25,000	440.00	242.00	265.00	145.75	110.00	60.50		
	25,000	26,000	530.00	291.50	320.00	176.00	135.00	74.25		
	26,000	28,000	720.00	396.00	430.00	236.50	180.00	99.00		
	28,000	29,000	820.00	451.00	490.00	269.50	205.00	112.75		
	29,000	31,000	1,050.00	577.50	630.00	346.50	265.00	145.75		
	31,000	33,000	1,680.00#	924.00#	1,010.00#	555.50#	420.00#	231.00#		
	33,000	34,000	2,250.00#	1,237.50#	1,350.00#	742.50#	565.00#	310.75#		
	34,000	36,000	Concessionary rates do not apply at these weights. Please see Table A above.							
36,000	38,000									

* Licences taken out at these rates do not permit the use of semi-trailers with fewer axles. It is an offence to use a vehicle with a licence at the wrong rate of duty.

At this rate the tractive unit may also be used with one-axle semi-trailers provided it does not exceed the appropriate Construction and Use weight limits.

10. PLATEABLE ARTICULATED GOODS VEHICLES over 12,000 kgs gross

Type of Vehicle	Gross Train Weight (kgs)		Taxation Class						
	Over	Not Over	HGV		HGV Farmers		HGV Showman's		
			12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £	
TABLE D 3 or more axled tractive unit used with any semi-trailer(s) (1,2,3 or more axles) 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75	
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50	
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50	
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50	
	20,000	22,000	550.00	302.50	330.00	181.50	140.00	77.00	
	22,000	23,000	620.00	341.00	370.00	203.50	155.00	85.25	
	23,000	25,000	780.00	429.00	470.00	258.50	195.00	107.25	
	25,000	26,000	870.00	478.50	520.00	286.00	220.00	121.00	
	26,000	28,000	1,090.00	599.50	655.00	360.25	275.00	151.25	
	28,000	29,000	1,210.00	665.50	725.00	398.75	305.00	167.75	
	29,000	31,000	1,680.00	924.00	1,010.00	555.50	420.00	231.00	
	31,000	33,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25	
	33,000	34,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25	
	34,000	36,000	2,450.00	1,347.50	1,470.00	808.50	615.00	338.25	
	36,000	38,000	2,730.00	1,501.50	1,640.00	902.00	685.00	376.75	
	TABLE E 3 or more axled tractive unit used with 2 or more axled semi-trailer(s) only * 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75
14,000		16,000	440.00	242.00	265.00	145.75	110.00	60.50	
16,000		18,000	440.00	242.00	265.00	145.75	110.00	60.50	
18,000		20,000	440.00	242.00	265.00	145.75	110.00	60.50	
20,000		22,000	440.00	242.00	265.00	145.75	110.00	60.50	
22,000		23,000	440.00	242.00	265.00	145.75	110.00	60.50	
23,000		25,000	440.00	242.00	265.00	145.75	110.00	60.50	
25,000		26,000	440.00	242.00	265.00	145.75	110.00	60.50	
26,000		28,000	440.00	242.00	265.00	145.75	110.00	60.50	
28,000		29,000	520.00	286.00	310.00	170.50	130.00	71.50	
29,000		31,000	640.00	352.00	385.00	211.75	160.00	88.00	
31,000		33,000	970.00	533.50	580.00	319.00	245.00	134.75	
33,000	34,000	1,420.00	781.00	850.00	467.50	355.00	195.25		
34,000	36,000	2,030.00	1,116.50	1,220.00	671.00	510.00	280.50		
36,000	38,000	Concessionary rates do not apply at these weights. See Table D above							
TABLE F 3 or more axled tractive unit used with 3 or more axled semi-trailer(s) only * 	12,000	14,000	420.00	231.00	250.00	137.50	105.00	57.75	
	14,000	16,000	440.00	242.00	265.00	145.75	110.00	60.50	
	16,000	18,000	440.00	242.00	265.00	145.75	110.00	60.50	
	18,000	20,000	440.00	242.00	265.00	145.75	110.00	60.50	
	20,000	22,000	440.00	242.00	265.00	145.75	110.00	60.50	
	22,000	23,000	440.00	242.00	265.00	145.75	110.00	60.50	
	23,000	25,000	440.00	242.00	265.00	145.75	110.00	60.50	
	25,000	26,000	440.00	242.00	265.00	145.75	110.00	60.50	
	26,000	28,000	440.00	242.00	265.00	145.75	110.00	60.50	
	28,000	29,000	440.00	242.00	265.00	145.75	110.00	60.50	
	29,000	31,000	440.00	242.00	265.00	145.75	110.00	60.50	
	31,000	33,000	440.00	242.00	265.00	145.75	110.00	60.50	
33,000	34,000	550.00	302.50	330.00	181.50	140.00	77.00		
34,000	36,000	830.00	456.50	500.00	275.00	210.00	115.50		
36,000	38,000	1,240.00	682.00	745.00	409.75	310.00	170.50		

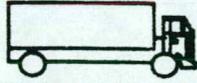
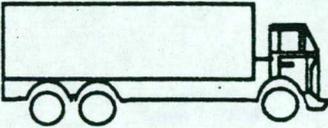
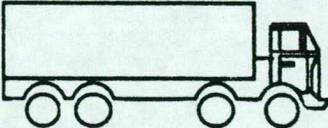
CONCESSIONARY RATES

* Licences taken out at these rates do not permit the use of semi-trailers with fewer axles. It is an offence to use a vehicle with a licence at the wrong rate of duty.

THE TERM "PLATEABLE" IS NOT APPLICABLE IN NORTHERN IRELAND

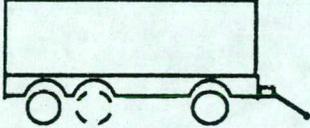
11. PLATEABLE RIGID GOODS VEHICLES over 12,000 kgs gross

(Vehicles used with plateable trailers may be subject to additional trailer duty, see Table 12 below)

Type of Vehicle	Gross Weight (kgs)		Taxation Class					
			HGV		HGV Farmers		HGV Showman's	
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
Rigid vehicle with 2 axles 	12,000	13,000	410.00	225.50	245.00	134.75	105.00	57.75
	13,000	14,000	570.00	313.50	340.00	187.00	145.00	79.75
	14,000	15,000	740.00	407.00	445.00	244.75	185.00	101.75
	15,000	16,260	1,030.00	566.50	620.00	341.00	260.00	143.00
Rigid vehicle with 3 axles 	12,000	13,000	320.00	176.00	190.00	104.50	90.00	49.50
	13,000	14,000	340.00	187.00	205.00	112.75	90.00	49.50
	14,000	15,000	340.00	187.00	205.00	112.75	90.00	49.50
	15,000	17,000	340.00	187.00	205.00	112.75	90.00	49.50
	17,000	19,000	490.00	269.50	295.00	162.25	125.00	68.75
	19,000	21,000	660.00	363.00	395.00	217.25	165.00	90.75
	21,000	23,000	900.00	495.00	540.00	297.00	225.00	123.75
	23,000	24,390	1,610.00	885.50	965.00	530.75	405.00	222.75
Rigid vehicle with 4 or more axles 	12,000	13,000	320.00	176.00	190.00	104.50	90.00	49.50
	13,000	14,000	340.00	187.00	205.00	112.75	90.00	49.50
	14,000	15,000	340.00	187.00	205.00	112.75	90.00	49.50
	15,000	17,000	340.00	187.00	205.00	112.75	90.00	49.50
	17,000	19,000	340.00	187.00	205.00	112.75	90.00	49.50
	19,000	21,000	340.00	187.00	205.00	112.75	90.00	49.50
	21,000	23,000	490.00	269.50	295.00	162.25	125.00	68.75
	23,000	25,000	690.00	379.50	415.00	228.25	175.00	96.25
	25,000	27,000	1,000.00	550.00	600.00	330.00	250.00	137.50
	27,000	29,000	1,470.00	808.50	880.00	484.00	370.00	203.50
29,000	30,490	2,420.00	1,331.00	1,450.00	797.50	605.00	332.75	

12. TRAILER DUTY

Where the drawing vehicle has a plated weight over 12,000 kgs gross AND draws laden plateable trailers over 4,000 kgs gross weight additional trailer duty is payable. See table below.

	Gross Trailer Weight (kgs)		Taxation Class					
			Trailer HGV		Trailer HGV Farmers		Trailer HGV Showman's	
	Over	Not Over	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
	4,000	8,000	80.00	44.00	80.00	44.00	80.00	44.00
	8,000	10,000	100.00	55.00	100.00	55.00	80.00	44.00
	10,000	12,000	130.00	71.50	130.00	71.50	80.00	44.00
	12,000	14,000	180.00	99.00	180.00	99.00	80.00	44.00
	14,000	-	355.00	195.25	355.00	195.25	80.00	44.00

EXAMPLE: A 2- axled vehicle plated at 16,260kgs which draws trailers plated at 8,130 kgs would pay £1,030.00 (Table 11) plus £100.00 (Table 12) annual rate.

NOTE: Vehicles which draw trailers below 4,000 kgs do not come within a trailer taxation class and no additional trailer duty is payable on them.

13. NON - PLATEABLE AND "SPECIAL TYPES" VEHICLES (GREAT BRITAIN)

"SPECIAL TYPES" AND VEHICLES NOT SUBJECT TO TESTING (NORTHERN IRELAND)

GREAT BRITAIN Goods vehicles over 1,525 kgs unladen weight which (a) do not fall within a class to which the Plating and Testing Regulations apply eg. dual purpose vehicles, tower wagons, or (b) do not comply with the Construction and Use Regulations but are authorised for road use under Section 42 of the Road Traffic Act 1972 ie. "Special Types" vehicles.	Taxation Class					
	Restricted HGV		Restricted HGV Farmers		Restricted HGV Showman's	
	12 month rate £	6 month rate £	12 month rate £	6 month rate £	12 month rate £	6 month rate £
NORTHERN IRELAND Goods vehicles over 1,525 kgs unladen weight which (a) do not fall within a class to which the Goods Vehicles (Certification) Regulations (Northern Ireland) apply eg. tower wagons, or (b) do not comply with the Construction and Use Regulations but are authorised for road use under Article 29 (3) of the Road Traffic (Northern Ireland) Order 1981 ie. "Special Types" vehicles.	130.00	71.50	90.00	49.50	90.00	49.50

For information on all other rates please consult any Local Vehicle Licensing Office.



FROM: A C S ALLAN
 DATE: 16 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Anson
 Mr Scholar
 Mr Culpin
 Mr Cropper
 PS/IR
 Mr Isaac -IR
 Mr Corlett - IR

ADDITIONAL RATE ON TRUSTS (STARTER 120)

The Chancellor has seen Mr Corlett's minute of 12 February. He feels we must exempt disaster funds, and would be grateful if further consideration could be given to how a "disaster" should be defined, and by whom.

2. If we did exempt disaster funds from the additional rate, would there be any case for stopping there rather than giving basic rate relief as well? And what about CGT etc?

3. Miss Sinclair's note of 4 February on Budget lollipops discussed the general issue of drawing a line between disaster funds and other deserving cases, and concluded that this raised "serious problems of a definitional and technical nature which could involve a great deal of work and it is most unlikely that these could be resolved in time for this year's Budget". It was largely for this reason that this proposal was ruled out at the fourth overview meeting. Does Mr Corlett's note imply that these problems could be overcome?

A handwritten signature in black ink, appearing to read 'ACSA'.

A C S ALLAN



Inland Revenue

Policy Division
Somerset House

*NCL 123
PT B*

*Ch/ Agree to make an announcement?
If so, on, or after the Budget?
Mr Corlett to arrange an approach (as in*

FROM: C W CORLETT
FAX No. 6766
EXTN. 6614
16 February 1988

CHANCELLOR OF THE EXCHEQUER *para 11) - meanwhile, answer questions
as in para 12?*

CHARITY COVENANTS

1. In response to Mr Isaac's minute of 20 January, you commented (Mr Taylor's minute of 25 January) that we should look into the possibility of eliminating all tax relief for covenants next year, but give a tax relief geared to charities generally. You will need to consider whether there should be an announcement about that possibility, and if so when it should be made.

2. At the end of his minute, Mr Isaac pointed out that care would need to be given to questions, on Budget Day or afterwards, about the Government's attitude to charity covenant relief. You will not need reminding what delicate ground this is. Charities obtain a considerable amount of their funds through the covenant system - about £m450 in 1985/86. Of this, about £m135 was tax, which they recovered from the Revenue. Any indication that the continuation of covenant relief might be in question will be seen as a threat to this flow of regular and committed income.

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Mr Scholar
- Mr Culpin
- Miss Sinclair
- Mr Cropper
- Mr Tyrie
- Mr Hudson

- Mr Isaac
- Mr Beighton
- Mr Deacon
- Mr Stewart
- Mr Davenport
- Mrs Fletcher
- PS/IR
- Mr Corlett

*Thanks.
As I made clear
in Mr Taylor's minute
of 25/1, this is a
matter for consideration
after the Budget, &
we now. The position
for how far to give some
covenant relief to charities
is quite simple & chairman
unaffected by
No adjust changes.*

Form of announcement

3. At a minimum, therefore, it would be necessary to give a reassurance that the present system would remain, unless a satisfactory alternative form of tax relief could be put in its place. The charities would not be happy, for example, to be told that payroll giving and business relief is already available: those reliefs are not open, for example, to the self-employed, and payroll giving is in any event still in its infancy.

4. Nor is it yet clear that any other new system would be generally acceptable to the voluntary sector. As Mr Isaac has pointed out, relief for millions of single donations, geared to donors' marginal rates of tax, is virtually unworkable within our PAYE system (as opposed to the American system under which everyone has to fill in a return every year). So a flat rate MIRAS scheme, geared to the income received by charities, looks a much better runner operationally, and we have already started to do some work on how it might be constructed.

5. But even if a MIRAS scheme replaced covenants on a revenue-neutral basis, its impact could be significantly different. If, for example, the MIRAS relief were extended to all donations (collecting boxes, one off donations and long term commitments, but not of course payroll giving and grants) -

- the poor man's pound would qualify for the same relief as the rich man's pound, and the latter's relief would be less than it is now
- there would be major distributional effects amongst charities: those that currently rely substantially upon covenants would tend to lose, whereas those that rely on collecting boxes etc. would gain.

6. There would also need to be additional policing to prevent fraudulent claims, involving inspection of charities' books. This, and a substantial increase in the number of charities with which the Revenue deals, would mean some additional administrative costs.

7. All these possible implications reinforce the need to consult the voluntary sector on any possible new system; and to avoid making any announcement which so alarms the charity world as to make their reaction to the 1986 proposals seem tame by comparison.

8. This points to looking to some sort of external handle on which to hang the announcement of a review, without having to commit yourself to any specific change. This could be the pressure there has been for some time from parts of the charity world for a simpler form of giving for the individual - such as a greatly simplified covenant arrangement or a system of relief for one-off donations. So the line could be that you are sympathetic to representations for simpler arrangements for charitable giving, provided satisfactory ones can be devised, and are happy for discussions to take place with the voluntary movement about their ideas.

Timing of announcement

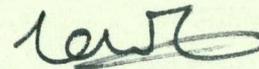
9. If you decide that an announcement should be made, the next question is when to make it.

10. One possibility would be in the Budget Statement itself. You are going to have to say that charity covenants are unaffected by this year's reforms. A review could be announced then. That would provide a ready answer to "what about charitable covenants in the longer term?" But it would be high-profile, risk diverting attention from the main Budget messages and look too much like a firm decision.

11. A better course would be to place the initiative on the charities, by reacting specifically to proposals from them. If necessary, we could arrange for an appropriate approach to be made formally to you by one of the leading figures in the charity world. The announcement could then be made away from the Budget itself, as a helpful reaction to representations, rather than as a possibly threatening Government initiative. It would also be easier for us to start discussions at our own timing, so as not to interfere with the immediate task of seeing through the main covenant and maintenance provisions in the Finance Bill.

Handling immediately after the Budget

12. If that were your preferred approach, questions immediately after the Budget Statement, and until an announcement, could be answered on the lines that "The Budget proposals do not affect relief for covenants to charity, which continues as at present".



C W CORLETT

CONFIDENTIAL

FROM: P J CROPPER
 DATE: 17 February 1988

CHANCELLOR

For info only. It is overtaken by
 yours of 17 Feb^y. I cannot keep
 up with you! *PJC*

cc Paymaster General
 Mr Tyrie
 Mr Call
 Mr Corlett IR

CHARITY COVENANTS

I would endorse Mr Corlett's recommendation that we go very cautiously over charity covenants (16 February). It would seem right to me for the Budget Statement to say "The Budget proposals do not affect relief for covenants to charity, which continues as at present".

2. Equally I would welcome a review of covenant procedure, to see whether there is any scope for further simplification of forms and processes. I have always thought there should be, and friend Brophy is now pressing. His suggestion is that we might dispense with the need for witnesses on small covenants under about £200 a year. Unless lawyers were unhappy this would seem to me to be sensible. Such a review could be announced either in the budget, or later, provided it were made quite clear that charity covenanting tax relief was not under threat per se.

3. The great prize in charity finance - tax relief for the individual's once off donation - cannot be seized until the Inland Revenue is in a position to give everybody an annual tax return. That is a long way off. Until then I believe the charities would be alarmed by any hint of an end to the present covenanting system.



P J CROPPER

BUDGET CONFIDENTIAL



FROM: MISS M P WALLACE

DATE: 17 February 1988

PS/ECONOMIC SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Financial Secretary
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Michie
Mr Jenkins - Parly Counsel

Mr McGivern IR
Mr Elliott IR
PS/IR

Mr Knox C&E
Mr Jefferson Smith C&E
Mr Allen C&E
PS/C&E

FINANCE BILL 1988: STARTER 211: BUSINESS ENTERTAINMENT

The Chancellor has seen your minute of 12 February and agrees that the VAT measure should be implemented by Order, with an operative date of 1 August.

A handwritten signature in cursive script, appearing to read 'mpw'.

MOIRA WALLACE



FROM: J M G TAYLOR

DATE: 17 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Ms Sinclair
Mr Jenkins
Mr Mace
Mr Isaac
Mr Cropper
Mr Call
Mr Tyrie

PS/IR

**INDEPENDENT TAXATION: PERSONAL ALLOWANCES NON-RESIDENTS SECTION 27
ICTA 1970**

The Chancellor has seen your minute of 15 February. He agrees with the Financial Secretary that we should go for option 1. He also agrees that, to the extent that non-resident servicemen make substantial gains from this option, we should seek to claw some of the costs back in the review of their allowances.

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR

BIF
2012.

FROM: CATHY RYDING
DATE: 17 February 1987

MR WILMOTT - CUSTOMS AND EXCISE

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
Mr Scholar
Miss Sinclair
Mr McKenzie
Mr Cropper

Mr Jefferson Smith - C&E
PS/C&E

BREWERS' SOCIETY LETTER ON DUTY INCREASES

The Chancellor was grateful for your minute of 13 February.

2. The Chancellor will need to send a short reply to Major-General Mangham, pointing out that only about a third of the nominal increase in price can be attributed to changes in taxation, the rest being attributable to the Brewers' themselves. I should be grateful if you would provide a draft.

A handwritten signature in cursive script, appearing to be "CR".

CATHY RYDING



FROM: J M G TAYLOR

DATE: 18 February 1988

PS/FINANCIAL SECRETARY

ccSir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper

Mr Cayley - IR
PS/IR

CGT: MINOR SIMPLIFICATIONS OF INDEXATION

The Chancellor has seen your minute of 17 February. He agrees with the Financial Secretary's conclusion that none of these measures is worth pursuing.

A handwritten signature in black ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

BUDGET CONFIDENTIAL



FROM: J M G TAYLOR
DATE: 18 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Kemp
Mr Scholar
Mr Culpin
Miss Peirson
Mr McIntyre
Miss Sinclair
Mr Gibson
Mr Portes
Mr Cropper
Mr Tyrie
Mr Call

Mr Mace - IR
PS/IR

APA FOR INCAPACITATED WIVES: CONVERSION TO BENEFIT

The Chancellor has seen your minute of 17 February. He agrees with the Financial Secretary's view that the idea of converting this relief into a benefit should not be pursued any further.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR

Now Ch:
BUDGET

**BUDGET SECRET
BUDGET LIST ONLY**

COPY NO 1 OF 4 COPIES

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FROM: M C SCHOLAR
DATE: 19 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

cc Mr Culpin

I have been thinking further about our conversation this morning (and I have fruitlessly gone through the original Budget Starters list again).

2. Your first two candidates seem to me as good as anything I can come up with. But if you are worried about people on around half average earnings, raising the allowances by 10 per cent (which I calculate would cost nearly £500 million above the scorecard total in 1988-89, and something over £600 million in 1989-90) does less than our old NIC option - indeed, it leaves married men on half average earnings with a higher tax/NIC burden than in 1978-79 (see table attached). Is there a case for reviving one of the older and smoother NIC options, costing $\frac{1}{2}$ - $\frac{3}{4}$ billion, as well as and not instead of double indexation?

3. The housing stamp duty exempt slice looks very expensive for what it buys (£550 million in 1988-89 and £700 million in 1989-90).

Affects wrong years.

4. Wouldn't it be better to do nothing more for the housing sector, but to open up a (substantial!) chink on Corporation Tax, bringing us down to the US 34 per cent, making companies feel they haven't been left out of the party (the speech is looking very thin on big companies), allowing us to develop a line on greater neutrality in the taxation of company finance etc?

5. We are still a bit short on lollipops. I don't think the disaster fund one will work - even though I suggested it. I have toyed with the idea of using this as part of the justification for abolishing the additional rate on trusts. But it won't wash, and I think there is no case for giving a further handout to some of the richest families in the country.

X |

6. We could look again at a tiddler - car tax relief (you have already given them, in 1984, VAT zero-rating on this) on cars supplied to Motability for leasing. Cost around £5 million.

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BUDGET LIST ONLY**

MCS
NOT TO BE COPIED

M C SCHOLAR

BUDGET SECRET
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NOT TO BE COPIED

BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
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Tax and NIC as % of Income: married man

Multiple of average earnings (ft male)

	0.4	0.5	0.6	0.7
1978-79	11.6	16.0	19.9	22.7
1988-89 indexation	13.1	19.3	22.0	24.0
NIC Option (ie old Option 1)	10.6	14.5	19.1	22.9
10% increase in allowances	11.5	17.6	20.3	22.3

SECRET

Many thanks. I do not want
to go back to NICs this year,
so let us focus on my
1st 2 options. But let us
check add x to the lollipop list.

B.L.O.

SECRET

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BUDGET

SECRET

B.L.O.

SECRET

BUDGET SECRET
BUDGET LIST ONLY

NOT TO BE COPIED



FROM: A C S ALLAN
DATE: 22 February 1988

MR SCHOLAR

cc Mr Culpin

NEW BUDGET MEASURES

The Chancellor was most grateful for your minute of 19 February. He does not want to go back to NICs this year, so thinks we should focus on the first two of his options.

2. He agrees that we should add car tax relief on cars supplied to Motability for leasing to the lollipop list.

ACSA
A C S ALLAN

*pay*

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

19 February 1988

Paul Stockton Esq
PS/Lord Chancellor
House of Lords
London SW1

Dear Paul,

MAINTENANCE

... As I mentioned to you on the telephone, I am enclosing a copy of a note by the Inland Revenue on the transitional arrangements for the proposed reform of the tax treatment of maintenance payments, which the Chancellor mentioned to the Lord Chancellor earlier this week. The Chancellor has asked me to stress that this paper has not yet been considered by Treasury Ministers (and contains some rum proposals). He would be most grateful for the Lord Chancellor's views, and our Diary Secretary will be in touch with your office about fixing up a meeting next week.

The paper is classified Budget Confidential, and should not be further copied, or shown to anyone other than the Lord Chancellor and Mr Peter Harris, who I understand is the official you have nominated to handle this issue.

*Yours
Alec*

A C S ALLAN
Principal Private
Secretary



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

22 February 1988

The Rt. Hon. Paul Channon MP
Secretary of State for Transport

Paul Channon

Following our exchange of correspondence in December, I am writing to let you know my decisions on vehicle excise duty rates.

I am content with your proposal to leave the main rates of VED unchanged and that there should be a new tax category for HGV 'special types'. I also agree with your view that there is a case for a thorough review of the "hackney" classes which you indicate are unique in falling short of track costs: it does seem curious that a coach has to have 66 seats before it pays as much VED as a car. I would be grateful if your officials could press on with this review so that information is available in good time for the run up to next year's Budget.

Peter Lilley has already written to Peter Bottomley indicating which of the minor starters he is content with.

NIGEL LAWSON

Paul Channon
Nigel Lawson

cc

CST
FST
PMG
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Riley
Miss Sinclair
Miss Evans
Mr Michie
Mr Unwin - C&E
Mr Knox - C&E
Mr Jenkins - Parl. Counsel



FROM: A C S ALLAN

DATE: 22 February 1988

MR SCHOLAR

cc Mr Culpin

Mr ACS Allan

Might it be best if you launched Motability (Customs want like it)?
Minute to Mr Knox " The Chancellor would be grateful for a quick note on
the case for giving car tax relief on cars supplied to Motability
for leasing."
MCS 23/2

NEW BUDGET MEASURES

The Chancellor was most grateful for your minute of 19 February. He does not want to go back to NICs this year, so thinks we should focus on the first two of his options.

- 2. He agrees that we should add car tax relief on cars supplied to Motability for leasing to the lollipop list.

ACSA

A C S ALLAN



FROM: A C S ALLAN

DATE: 22 February 1988

MR SCHOLAR

cc Mr Culpin

NEW BUDGET MEASURES

The Chancellor was most grateful for your minute of 19 February. He does not want to go back to NICs this year, so thinks we should focus on the first two of his options.

2. He agrees that we should add car tax relief on cars supplied to Motability for leasing to the lollipop list.

ACSA

A C S ALLAN



FROM: J M G TAYLOR

DATE: 24 February 1988

MR LEWIS - IR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Odling-Smee
Miss Sinclair
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Jenkins (OPC)

Mr Battishill IR
Mr Isaac IR
Mr Beighton IR
Mr Mace IR
PS/IR

**INDEPENDENT TAXATION: MARRIED COUPLES ALLOWANCE AND ADDITIONAL
PERSONAL ALLOWANCE**

The Chancellor has seen your minute of 23 February.

2. In the circumstances he is content to go ahead as planned. But he would like the possibility of amalgamating these two allowances ^{to be} a starter for 1989.

A handwritten signature in dark ink, appearing to be 'JMG'.

J M G TAYLOR

BUDGET CONFIDENTIAL



psp

FROM: A C S ALLAN
DATE: 25 FEBRUARY 1988

PS/C&E

cc PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr P R H Allen - C&E
PS/IR

NEW BUDGET STARTER

The Chancellor would be grateful for a quick note on the case for giving car tax relief on cars supplied to Motability for leasing.

ACS

A C S ALLAN

BUDGET CONFIDENTIAL



INLAND REVENUE
POLICY DIVISION
SOMERSET HOUSE

FROM: P W FAWCETT
25 FEBRUARY 1988

FST
Rather late for these
major matters to
come up for decision.
Are you happy
with these
proposals?

1. MR HOUGHTON

You may wish to have a word about this
when we see you on Tuesday next.

2. MR PAINTER

262.

Mr 25/2

3. FINANCIAL SECRETARY

SECTION 482 REPLACEMENT: COMPLIANCE AND TRANSITIONAL ASPECTS

1. This note sets out recommendations on the compliance and transitional aspects of the proposed new regime to replace Section 482(1) (a) and (b).

cc. PS/Chancellor of the Exchequer
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Mr Scholar
Mr Culpin
Ms Sinclair
Mr Riley
Mr Cropper
Mr Tyrie
Parliamentary Counsel

Chairman
Mr Isaac
Mr Painter
Mr Pollard
Mr Roberts
Mr Houghton
Mr Pitts
Mr Beighton
Mr Cleave
Mr Calder
Mr Hunter
Mr Sadler
Mr Cayley
Mr Creed
Mr Fawcett
Mr Sullivan
Miss Lacey
Mrs Smyth
Mr Ellis
Mr Fitzpatrick
Mr Pritchard
PS/IR

Compliance

2. The proposed incorporation test will not involve a new charge to tax. The proposed exit charge will, however, need new compliance provisions. Without such provisions companies would be able to migrate leaving no assets in the UK, and the legislation would be worthless.

3. Only companies incorporated abroad - and therefore able to migrate - will be subject to an exit charge. We estimate that these will comprise roughly 1% of all companies in the UK. While we are looking for legislation that prevents, as far as possible, such companies migrating without paying their tax liabilities, it must be recognised that any such rules may not be as effective as the present regime of Treasury/Ministerial discretion backed up by a criminal penalty. Two sanctions are however available - first levying a penalty on companies (and their directors and others involved in the company) which migrate without arranging for their tax liabilities to be paid and second going for the tax from other related taxpayers (including other companies in a group).

4. First the general scheme. A company proposing to migrate would be required, before it does so, to give notice of its intention and to make arrangements to safeguard payment of the tax due in respect of the period up to migration. When a company presently asks the Treasury for consent to migrate under Section 482 it frequently negotiates with the Revenue arrangements for a guarantee in respect of its tax, often appointing an attorney. These arrangements work well, are known to Revenue and taxpayers alike and could be adopted for use in this new regime. If they were adopted in the new regime, they would of course need to be provided for in legislation but there should, we suggest, be no need to specify in detail in the legislation how they work. It is implicit in these arrangements that the company and the Revenue will have to come to an understanding about the order of magnitude of the tax liability involved, particularly in respect of accrued capital gains.

5. Continuing with this approach seems preferable to setting up a new scheme for making assessments before the normal time and providing for payments on account and interest charges. It may, however, be objected that a company has no redress if the Revenue does not agree to the arrangements it offers. If Ministers feel that this is a valid point which ought to be met we could seek to negotiate a procedure with the Lord Chancellor's Department and the Special Commissioners for a review, at the company's request, by the Special Commissioners, on the grounds that the Revenue's claims for the amounts guaranteed were unreasonable. There is an analogy here with capital gains tax clearance applications under Sections 87-88 CGTA 1979, although the Special Commissioners have expressed some reservations about this procedure. An alternative review body would be the Section 460 tribunal (which reviews cases where the Revenue seek to cancel tax advantages from certain transactions in securities).

Consultation would be essential to test the strength of their reservations
26.2

5. We therefore recommend providing for companies to give notice of proposed migration and make arrangements with the Revenue for paying their tax including the exit charge for periods up to migration; we also recommend, if Ministers wish, exploring the possibility of a review system.

Penalty for not giving notice and making arrangements

7. I now look at the two sanctions - first the penalty. We suggest that it will be necessary to have a penalty in the event that the company ceases to be resident in the UK without giving notice of its intention to migrate and without making arrangements to safeguard the tax due up to the date of migration.

8. Such a penalty would be geared to the tax due in respect of the period up to migration, 100% of the tax but mitigable.

9. The penalty would normally be on the company. However, when the company has already migrated it may be difficult in practice to get a penalty from it. It is therefore for consideration whether the penalty should not go wider. Since we are looking at responsibility the blame should rest as much with the people who

are in fact responsible for the company not giving notice and making arrangements. Normally these will be the directors of the migrating company or any directors in the group who could be shown to be responsible.

10. However, we have to say that even this may not go far enough. There could be situations where, say, a shareholder who holds 51% of the shares in the company may exert such influence on the directors that the company migrates without telling the Revenue. Or a divisional manager in a group may arrange for a subsidiary company to migrate with the acquiescence of the directors. A wider formulation, similar to what we currently have in Section 482(5) - any person knowingly being a party to migration without telling the Revenue - would be needed to catch these people.

11. Clearly the wider the coverage of the compliance net, the more effective it will be. If, however, Ministers are looking for a penalty which should be reasonably effective without being too draconian, we would suggest a penalty on the migrating company and any controlling companies, and the directors of any of these companies unless these directors can show that they were not parties to the decision to migrate. This would put the penalty where the responsibility normally lies. We would recommend this latter formulation accordingly.

Recovering the tax

12. Now, the second of the two sanctions - the tax. If a company has migrated leaving no assets in the UK and having made no arrangements for payment of tax due up to the date of migration or the arrangements prove to be inadequate, it may be impossible to collect the tax from the company. It would therefore be sensible to provide for the tax to be recovered from other appropriate persons.

13. A first approach would be to have recourse for the tax to other companies in the same group. There is a precedent for companies in the same group in Section 277 of the Taxes Act 1970, although it is not a totally matching precedent.

14. A second approach would be to seek the tax not only from group companies but also from those who, very broadly, are both responsible for the migration and stand to benefit from the non-payment of UK tax liability. In terms then we would suggest going for the tax from the migrating company, other companies in the group and the controlling directors of the migrating company and any controlling companies. We suggest that this second approach has the right balance and recommend it accordingly.

Transitional

15. Three transitional situations need consideration.

16. I have already described the first one in paragraph 17 of my note of 19 November. I floated the idea of limiting the incorporation test for five years to

- i. all companies which were incorporated in the UK after the starting date of the legislation and
- ii. all companies which were incorporated in the UK before that date and were resident in the UK under existing law.

This would allow existing non-resident but UK incorporated companies to re-organise themselves outside the UK tax net. After five years all UK incorporated companies would be treated as resident for tax purposes in the UK. We now recommend this.

17. The second situation involves companies which will have applied for consent to migrate under Section 482 and whose applications are still being processed on Budget Day (there are perhaps about 40 applications on hand at any one time). Other applications will have received consent but the companies have not yet migrated. One option would be to provide that only applications for which consent has been given by Budget Day will stand. This could, however, give rise to complaints from those who had applied for consent and we would recommend on balance drawing the line at applications which have been made rather than those for which consent has been given. These would be dealt

with under the provisions of Section 482 as they stand. This would incidentally also take care of the Daily Mail case (as we recommended in paragraph 43 of my note of 19 November) without making any special provision for it.

18. The third situation involves possible complaints that some companies subject to the incorporation test or exit charge from Budget Day would have been able to migrate with impunity under existing General Consents. While it would be possible to provide a derogation from the new law for such situations, such a derogation would not sit easily with the new law. The answer to any complaints would surely be that the new regime follows a review of the General Consents in which there is widespread expectation of change, that the previous unpopular discretionary system is being replaced by a new objective system and that it would not be appropriate to mix old with new. We recommend this accordingly.

Conclusion

19. We seek your approval to the recommendations made in this minute as follows:

on compliance

- i. that companies should give notice of migration and, as now, make arrangements with the Revenue to pay the tax due up to migration (paragraph 6);
- ii. that, if you wish, we should explore the possibility of a review system with the Lord Chancellor's Department and the Special Commissioners (paragraph 6);
- iii. that if a company migrates without giving notice and making arrangements for paying its tax up to migration, a tax-g geared penalty, mitigable, should be levied on the company, any controlling companies and the directors of any of these companies unless they can show that they were not parties to the decision to migrate (paragraph 11);

BUDGET CONFIDENTIAL

- iv. that, in default of the migrating company paying the tax, there should be provision for the Revenue to go for the company, other companies in the group and the controlling directors of these companies (paragraph 14);

On transitionals

- v. that existing non-resident but UK incorporated companies should have five years in which to re-organise themselves before becoming resident in the UK for tax purposes (paragraph 16);
- vi. that existing law should apply to applications for consent under Section 482 which have been made before Budget Day (paragraph 17);
- vii. that there would be no let out from the new law after Budget Day for companies which could have migrated under the existing General Consents (paragraph 18).

20. We are of course at your disposal if you wish to discuss these recommendations.

P. W. Fawcett

P W FAWCETT



Ch/ We are having
your redraft typed up.
Can I just check
whether or not you
are content to make
concession on
summer-term charters
(paragraph 9).

I will.
r.

mgw.

8/3



Ch/ Mr Burr tells us that
Scots are apparently
disgruntled about way
we propose to deal with
Scottish 17-year olds,
and Mr Rifkind may
raise in margins of
Forestry meeting.

Papers behind:

*

He did ^{ask} ^{him} ^{or} ^{on} ^{Monday}
to give ^{me} ^{an} ^{answer} ^{on} ^{Monday}
4/3

From: C D FORD
Date: 26 February 1988

CHANCELLOR

cc: Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Sir G Littler
Mr J Anson
Sir A Wilson
Mr Byatt
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Odling Smee
Miss Sinclair
Mr Riley
Miss Evans
Mr Hudson
Ms Munro
Mr Cropper
Mr Tyrie
Mr Call

Mr Unwin C&E
Mr Knox C&E

Mr Battishill IR
Mr Isaac IR
Mr Painter IR
Mr McGivern (IR)

*Thanks.
X is a budget
defining table,
relevant to Budget
surveys. Mr.*

INTERNATIONAL COMPARISONS OF CORPORATE TAXES

At the Overview meeting on 15 February you asked for an up-to-date international comparison of company taxes as a percentage of total taxes and as a percentage of GDP, for use in defence of criticisms of the increasing tax yield from companies.

2. As ever, international comparisons are made difficult by differences in statistical conventions and the structure of taxation. For some countries, particularly the United States, the interaction between State and Federal taxes creates additional problems. For these reasons it is desirable to base any comparisons on the standardised figures produced by the OECD.

3. Unfortunately the most recent OECD publication only provides complete figures for the 1985 calendar year. Whilst it has been possible to construct 1986 estimates for most countries, these must be treated as tentative.

4. As your letter to NEDC (4 January) pointed out, there are considerable conceptual difficulties with the notion of a "tax on business"; all taxes are ultimately taxes on individuals. In addition the attached figures included payments (e.g. employers' NICs for public sector employees) which, even on a loose definition, could not reasonably be described as business taxes. However it has not proved possible to find a consistent method of removing such payments.

5. As "recurrent taxes on non-household immovable property" are a poor proxy for business property taxes we have produced tables with and without property taxes.

6. The figures suggest that there has been no dramatic changes in UK corporate taxes as a percentage of either GDP or total taxation over recent years. If property taxes are included, UK business taxes are a somewhat higher proportion of GDP than in Germany or the US. However as a percentage of total taxation the American figure is higher.

7. If property taxes are excluded the comparison becomes more favourable to the UK. Taxes on business constitute a lower proportion of GDP than in France, Germany, Italy or Japan. As a percentage of total taxation they are also lower than in the US.

8. The attached tables show that, although companies have enjoyed large increases in profits in recent years, business taxes have fallen as a percentage of total taxation and remained broadly constant as a percentage of GDP. However Corporation Tax receipts have grown strongly since 1986; whilst we have little information on the position in other countries the comparison may no longer be as favourable to the UK.

Chris Ford

CHRIS FORD

TAXES ON BUSINESS AS PERCENTAGE OF GDP

(Including property taxes)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
CANADA	-	-	-	-	-	-	-	-	-
FRANCE	14.8	15.2	15.7	15.9	16.2	16.4	16.3	16.2	16.1
GERMANY	9.7	9.6	9.4	9.3	9.4	9.2	9.5	9.7	9.6
ITALY	10.7	8.4	11.0	11.3	12.1	12.4	12.2	12.0	10.5
JAPAN	-	-	-	-	-	-	-	-	-
U.K.	9.0	9.5	10.2	10.6	11.3	10.4	10.8	10.6	10.7
U.S.	9.4	9.3	9.1	8.8	8.5	8.1	8.5	8.7	-

TAXES ON BUSINESS AS PERCENTAGE OF TOTAL TAXATION

(Including property taxes)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
CANADA	-	-	-	-	-	-	-	-	-
FRANCE	37.6	36.9	36.8	37.0	37.0	36.6	35.8	35.6	35.8
GERMANY	25.3	25.5	24.8	24.7	25.1	24.8	25.2	25.7	25.7
ITALY	39.4	31.7	36.8	36.3	35.8	34.5	34.7	34.6	29.0
JAPAN	-	-	-	-	-	-	-	-	-
U.K.	27.3	28.9	28.6	29.2	28.8	27.7	28.0	27.8	27.3
U.S.	32.7	31.8	30.8	29.3	28.3	28.2	29.7	29.4	-

Taxes on business defined as the sum of taxes on corporate income, employers social security contributions, taxes on payroll and workforce and recurrent taxes on non-household immovable property

Canada and Japan have been excluded because recurrent taxes on immovable property are not allocated between households and others.

1986 figures are provisional estimates. They assume that households pay the same proportion of taxes on immovable property as in 1985.

Source: Revenue Statistics of OECD Member Countries 1965-86

TAXES ON BUSINESS AS PERCENTAGE OF GDP

(Excluding property taxes)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
CANADA	5.7	5.6	5.8	5.8	5.0	5.3	5.6	5.5	5.6
FRANCE	14.5	14.8	15.3	15.5	15.8	16.0	15.9	15.7	15.7
GERMANY	9.4	9.4	9.2	9.1	9.2	9.0	9.2	9.5	9.4
ITALY	10.7	8.4	11.0	11.3	12.1	12.4	12.2	12.0	10.5
JAPAN	9.0	8.7	9.4	9.3	9.4	9.5	10.0	10.2	N/A
U.K.	7.0	7.5	8.0	8.2	8.7	8.0	8.4	8.3	8.2
U.S.	7.6	7.7	7.6	7.3	6.9	6.5	7.0	7.2	N/A

TAXES ON BUSINESS AS PERCENTAGE OF TOTAL TAXATION

(Excluding property taxes)

	1978	1979	1980	1981	1982	1983	1984	1985	1986
CANADA	18.8	18.3	18.2	17.1	15.1	16.0	16.9	16.7	16.5
FRANCE	36.8	36.0	36.0	36.2	36.2	35.8	34.9	34.6	34.8
GERMANY	24.6	24.8	24.2	24.1	24.5	24.2	24.5	25.1	25.1
ITALY	39.4	31.7	36.8	36.3	35.8	34.5	34.7	34.6	29.0
JAPAN	37.4	35.6	36.6	35.6	35.2	34.9	36.3	36.4	N/A
U.K.	21.2	22.7	22.4	22.5	22.2	21.4	21.8	21.8	20.9
U.S.	26.4	26.4	25.7	24.3	23.1	22.6	24.6	24.4	N/A

Taxes on business defined as the sum of taxes on corporate income, employers social security contributions and taxes on payroll and workforce

1986 figures are provisional estimates

Source: Revenue Statistics of OECD Member Countries 1965-86

BUDGET CONFIDENTIAL

FROM: T J BURR
26 February 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Isaac-IR
Mr Corlett-IR
Mr Stewart-IR
PS/IR

STUDENTS AND COVENANTS

Last week you informed both Mr Baker and Mr Rifkind of your proposal to abolish tax relief on covenants between individuals, and compensate students by a reduction in the parental contribution scale for those starting their studies after the Budget. We have also informed the official heads of DES and the Scottish Education Department (SED); and I have now discussed the implications of the proposal with those two Departments. We have of course impressed on the officials concerned the overriding requirements of Budget security and the need to confine knowledge to themselves personally.

2. The purpose of this note is to report their reactions and to seek decisions on a couple of points which they have raised.

3. Neither Department saw fundamental difficulty in having two parental contribution scales, one for those who were in higher education before the Budget and one for those who start their studies afterwards. The reaction of SED was the most useful and authoritative on this score, because they actually administer the student award system in Scotland themselves. They said that there would be likely to be additional administrative costs, and an increased error rate. They also

[Handwritten note in red ink:]
[Old Rank Scales, who
some of the schemes,
was to offer
extra money!]

BUDGET CONFIDENTIAL

anticipated some minor problems in defining what was meant by "starting their studies", particularly on the boundary between non-advanced and advanced further education. I said that the objective should be as far as possible to exclude from the new and lower contribution scale any category of existing students who were more likely than not to have covenants.

4. For their part, DES professed mild apprehension at the likely complaints of local authorities about the additional administrative burden of operating two scales. But they did not believe that it would be at all impossible for them to do so.

5. Both Departments agreed that the date of starting studies was the right criterion for access to the new reduced scale, and both agreed that it should be set at the beginning of the next academic year. They agreed that it would be much more difficult for award making bodies to have to establish whether the student already benefited from a covenant or not. Subject to the points in the next paragraph, they accepted the implication that parents of existing students who could have arranged a covenant but had not done so would now simply lose the opportunity to benefit.

6. SED, however, drew attention to a particular Scottish problem, arising from the fact that students start their courses a year earlier in Scotland than in England and Wales. There are therefore large numbers of Scottish students who are under 18, and are therefore unable to benefit from covenant tax relief. The Inland Revenue agree that the parents of such students typically do not arrange a covenant until their child reaches the age of 18, since there is no financial advantage in doing so earlier. This means that if access to the new parental contribution scale is limited strictly to those who start their studies in the next academic year, a lot of existing Scottish students who do not have covenants, but whose parents had every intention of arranging one once they reached the age of 18, will be left without any equivalent benefit.

BUDGET CONFIDENTIAL

7. We think that this would lead to a good deal of complaint, with the added emphasis that it represented discrimination against Scotland in particular. We therefore propose that the new scale should also be made available to those who were in higher education in the current academic year and whose eighteenth birthday falls on or after Budget day. There will still be some hard cases whose birthdays fall shortly before Budget day but whose parents had not yet got round to arranging a covenant; but there seems no other obviously defensible cut-off point. This concession would not be confined to Scotland, since there would be small numbers of young students elsewhere in the UK for whom a similar case could be made.

8. The two Departments also said that it would be helpful if a decision could be taken now on the length of time for which there would need to be two parental contribution scales. There would be no obvious reason for being unable to answer the questions which would inevitably be asked on this point, not least by the local education authorities who administer student awards in England and Wales. Clearly there is no point in keeping the old scale going for ever. When to drop it means striking a balance between two considerations:

(a) If it continues for too long the savings resulting from assessing the small number of existing students still in the system on the higher rather than the lower scale will cease to justify the administrative effort involved in having two scales;

(b) If it is dropped too soon, there will still be significant numbers of existing students still in the system, and still having covenants, who will get a double benefit.

I have asked the two Departments to provide figures for the number of existing students who could be expected to be still in the system 4, 5, and 6 years from now. Inland Revenue information suggests that 5 years may be about right. We will provide further advice on the precise limit when we have the necessary information. For the present we take it that you would be content in principle to settle the time limit now,

BUDGET CONFIDENTIAL

and that five years is the right sort of period.

9. The final point which the Departments raised was about the treatment of **breaks in higher education**. In order to prevent people from starting new courses solely in order to get the benefits of the lower parental contribution scale, the Departments believe that they will need to draw a strict ring fence round the whole of higher education so that anyone who is already in the system at all is barred from getting the new scale, irrespective of course changes. But they point out that this could be hard on people who complete a first degree course, go into employment for a couple of years, and then re-enter higher education. They might still be under 25, and their parents still liable for parental contribution, but it is unlikely that they would still be benefiting from a covenant. It seems to the Inland Revenue and ourselves that there would be no harm in allowing people who had been out of the higher education system for two years or more to be treated as if they had entered higher education for the first time, and benefit from the new scale. One year would be too short, because there would be sandwich and other students who might have interrupted their studies for that length of time but would be likely to continue to benefit from a covenant. But a two-year concession would also have to avoid the administrative problem of establishing whether people actually had or had not been in higher education several years ago. Provided that the position during the last two years could be established, a decision on their eligibility could be taken.

10. You are therefore invited to note that no overriding difficulty is foreseen with the proposed arrangements for compensating students for the loss of covenant relief; and to agree that:

(a) the new parental contribution scale should cover not only those who start their studies from the next academic year but also existing students who were under 18 before Budget day;

(b) the existing parental contribution scale will have

BUDGET CONFIDENTIAL

served its purpose and should be dropped after a specified period of time (probably 5 years);

(c) Students whose studies are interrupted for two years or more should be treated as if they were starting their studies, and given the benefit of the new parental contribution scale.

T. J. Burr

for T J BURR



FROM: J M G TAYLOR
 DATE: 29 February 1988

MR FORD

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Anson
 Sir A Wilson
 Mr Byatt
 Mr Scholar
 Mr Culpin
 Mr Sedgwick
 Mr Odling-Smee
 Miss Sinclair
 Mr Riley
 Miss Evans
 Mr Hudson
 Ms Munro
 Mr Cropper
 Mr Tyrie
 Mr Call
 Mr Unwin - C&E
 Mr Knox - C&E
 Mr Battishill - IR
 Mr Isaac - IR
 Mr Painter - IR
 Mr McGivern - IR

INTERNATIONAL COMPARISONS OF CORPORATE TAXES

The Chancellor was grateful for your minute of 26 February.

2. He has commented that the table showing taxes on business as a percentage of total taxation is a useful one for defensive purposes, and relevant to Budget briefing.


 J M G TAYLOR



FROM: J M G TAYLOR
DATE: 29 February 1988

MR BURR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Isaac - IR
Mr Corlett - IR
Mr Stewart - IR
PS/IR

STUDENTS AND COVENANTS

The Chancellor has seen your minute of 26 February.

2. He is not persuaded that there is a case for compensating Scottish students in the manner suggested in your paragraph 10(a). The Scots have, over the years, complained that the present system discriminates against them. This discrimination will now be removed. He agrees that there may be a special case for students caught by the transition, but he does not feel that even this is particularly strong. He does not, therefore, wish to make this concession.

3. He agrees that the existing parental contribution scale should be dropped after a specified period of time (probably 5 years) (your paragraph 10(b)). He also agrees that students whose studies are interrupted for 2 years or more should be treated as if they were starting their studies, and given the benefit of the new parental contribution scale (your paragraph 10(c)).

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR



FROM: J M G TAYLOR

DATE: 29 February 1988

MR FORD

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Odling-Smee
Miss Sinclair
Mr Riley
Miss Evans
Mr Hudson
Ms Munro
Mr Cropper
Mr Tyrie
Mr Call

Mr Unwin - C&E
Mr Knox - C&E

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr McGivern - IR

INTERNATIONAL COMPARISONS OF CORPORATE TAXES

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2. He has commented that the table showing taxes on business as a percentage of total taxation is a useful one for defensive purposes, and relevant to Budget briefing.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR



FROM: J M G TAYLOR

DATE: 2 March 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mrs Lomax
Miss Sinclair
Mr Neilson
Mr Cropper
Mr Tyrie
Mr Call

Mr Corlett IR
Mr Kuczys IR
PS/IR

PEPS LIMIT

The Chancellor has seen Mr Ilett's minute of 29 February.

2. He has commented that this problem will always be with us so long as PEPs are on a calendar year basis, and tax changes are announced in March. We might have done better to have a PEPs year from, say, 1 June. But it is too late to do anything about this now.

A handwritten signature in dark ink, appearing to be 'J M G Taylor'.

J M G TAYLOR



FROM: A C S ALLAN

DATE: 7 March 1988

MR ODLING-SMEE

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Scholar
 Mr Culpin
 Mr Sedgwick
 Mr S Davies
 Mr Riley
 Miss Sinclair
 Mr Mowl
 Mr Cropper
 Mr Tyrie
 Mr Call
 PS/IR
 Mr Calder - IR
 Mr Eason - IR
 Mr Weeden - IR

BEHAVIOURAL EFFECTS OF INLAND REVENUE TAX CHANGES

The Chancellor was most grateful for your minute of 4 March.

2. He feels that option 3 (behavioural effects for CGT changes only) looks the most sensible course.
3. If pressed for an answer on the basis on which the revenue forecasts are constructed, he feels we must clearly be consistent with the option used in the FSBR: ie. say that Revenue forecasts are based on behavioural effects for CGT only.
4. Finally, he notes that the cost of the package will need to take into account not only this decision on behavioural effect, but also the assumption on income distribution (my note today in response to Mr Eason's note of 4 March^{*}).

(*not to all)

ACS

A C S ALLAN

*1 Adizah (private) to Mr R on FBI Nat of
L Covenants on first 1 wd five line
17 year olds.
He has to 1 wd. 1 line.
redraft letter.*

BUDGET CONFIDENTIAL

FROM: T J BURR

7 March 1988

CHANCELLOR

cc
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Isaac IR
Mr Corlett IR
Mr Steward IR
PS/IR

*Ch/ I agree with proposals on
para 10 (this has had a
casualty amount
& Budget
Spk: ps2
check).*
Content to write as drafted?
(Mr Burr is unrepentantly
pro-17 year old)

And content with recommendation
at para 10? (No question of holding
DES basic rate decision
in advance, surely, given their
recent record of high-security)
mpw 213

STUDENTS AND COVENANTS

My submission of 26 February reported on the immediate points which DES and the Scottish Education Department raised with me on the proposed abolition of tax relief on covenanting as it affects students. This submission now reports on a few further points which have emerged now that the two Departments have been able to consider the matter more fully. It also provides a draft letter for you to send to Mr Rifkind about the treatment of first year Scottish students, which you discussed with him on Friday.

2. The main new point which has emerged concerns the logistics of issuing press notices on the change. It will be very desirable to publish the new parental contribution scale as soon as possible: although the effect on those within the limits of the present contribution scale will simply be to reduce the existing contribution by the same as the basic percentage rate of tax, the new scale will extend to rather higher levels of income and at those levels the effect will only be apparent from looking at the scale. But calculating the new scale means knowing the new basic rate of tax, which of course has not been communicated to the two departments.

3. We have identified three ways of dealing with this problem. If the education Departments' press notices are to be issued

BUDGET CONFIDENTIAL

with other Budget press notices in the normal way, they will need to be told the decision on the basic rate of tax on Thursday of this week. They could then get the new scale approved by their Secretary of State, and the Treasury could be provided with 1800 copies of the press notice on Friday as required for inclusion with other Budget press notices.

4. Clearly it would be better not to have to tell the education Departments about the decision on the basic rate as early as Thursday. An important constraint would be removed if the press notice did not have to be ready for issue by the Treasury along with other press notices, but could be separately issued by the Departments concerned on Budget day. Even so, it would not be possible for them to guarantee the orderly issue of such a press notice on Budget day if they did not learn of the decision on the basic rate until the Budget Statement had been made. To achieve that, we would need to tell them earlier in the day. That too would be best avoided.

5. The third option, which is the one we recommend, is that the press notice should be issued the following morning, which the two Departments should be able to achieve without undue difficulty even if they have no advance notice of the decision on the basic rate. The new scale would then be in the public domain before the debate on the day after the Budget, so that the Chief Secretary would be able to refer to it when speaking in the debate to rebut any claims that there was confusion about the new arrangements. The two Departments would however need to warn their respective Chief Information Officers no later than the day before the Budget that there would be a press notice to handle immediately after the Budget, so that the necessary preparations could discreetly be made. But the CIOs would not be told anything about the substance of the change to be announced.

6. In response to my submission of 26 February, you agreed that the Government should be a position to say how long the regime of two parental contribution scales would last. I suggested that the appropriate period might be about five years. Subsequent work has indicated that the great majority of existing

BUDGET CONFIDENTIAL

students will have passed out of the system three years from the introduction of the new scale. But there would still be up to 10,000 in the fourth year, after which the numbers fall off to fairly insignificant levels. DES are therefore prepared to agree that the old scale should continue for four years, and that this should be announced. But they would want to be able to return to the matter if the effort of running two parallel scales proved disproportionate to the number of students who would still be affected in the fourth year. Since no one will object if it is later decided to discontinue the old scale a year early, we think that this provides an acceptable way forward; and we recommend that the period should be set at four years on this basis.

7. On the question of first year Scottish students, I understand that Mr Rifkind has spoken to you but you are not minded to make a concession. I attach a draft letter to him which makes the point that the change is bound to have a number of rough edges, and that both those not receiving support at mandatory rates and those on higher incomes will be getting no compensation for the loss of tax relief on covenants. It is not therefore necessary to make special provision for Scottish students under 18.

8. We have to admit however, that we do to some extent take the point which the Scottish Office are making. Scottish students who started in the previous academic year will continue to enjoy the benefit of relief on covenants. Those who start from the next academic year will get the lower parental contribution scale. Those who start this year, however, will fall between two stools; and because they were under 18 and unable to benefit from tax relief, and therefore unlikely to have covenants, will not be able to get either tax relief or the benefit of the new scale at any time during the whole period of their studies, although they started their courses with a reasonable expectation of doing so. We think that this could easily be represented as a lack of Government awareness of an essentially Scottish problem, and might prove more trouble than it is worth.

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9. On a separate point, DES have had second thoughts about the starting date for entitlement to the new parental contribution scale. They had agreed that it should apply only to those starting their studies after the start of the next academic year in October; but they are now concerned that there will be a small number of students who start from the beginning of the summer term this year, and would like such students (who are likely to have covenants) to be entitled to the new scale once it is implemented at the start of the next academic year. In principle, there is a good case for making this concession. In practice, it is a question of how far you wish to go to recognise special cases of this kind. I think that it would be right to view this point in the same light as the one about first year Scottish students. If you are not making any concession to them, and are defending that in terms of necessary rough justice, you will hardly wish to undermine that defence by making special provision for a small group of students.

10. In conclusion, subject to the above points, I can confirm that we now have an agreed plan for implementing the change, with which the Departments concerned are content and which they believe will work. On the outstanding points, we recommend:

(a) That the education Departments should not get advance notice of the basic rate of tax, and that their press notices should therefore issue on the morning after the Budget;

(b) That they should be allowed to warn their Chief Information Officers of the impending press notices, though not of their content, on the day before the Budget;

(c) That the two-tier parental contribution scale should be presented as for four years only.

On first-year Scottish students, the only real defence is one of rough justice, and it would hardly be consistent with that to make special provision for students starting courses in the summer term. If on the other hand you felt that Mr Rifkind's point should be met, there is a similar case in principle for making the new scale available to those who start in the summer term.



T J BURR

BUDGET CONFIDENTIAL

DRAFT LETTER

FROM: CHANCELLOR

TO : SECRETARY OF STATE FOR SCOTLAND

STUDENTS AND COVENANTS

After our meeting on Friday

We spoke ^{briefly} about the changes proposed in the area of students and covenants, and you represented to me that special provision should be made for first year Scottish students who were under 18 before Budget day and might not yet have made a covenant because they were still unable to obtain tax relief, although fully intending to do so once they were 18. You wanted them to be eligible for the new reduced parental contribution scale, along with those who start their studies from the next academic year. *Since you evidently feel strongly about this, I am prepared to accept your proposal.* [as I promised to]

~~I have looked again at this question, but I have to say I do not feel it would be possible to make special provision for this group. (But the same is true, for example, of those with incomes above the top of the new parental contribution scale. ^{who} They will nevertheless get nothing to replace the benefit of covenant tax relief. (Students not getting support at mandatory rates will be in the same position.)~~

~~3. Any change of this kind is bound to involve a certain amount of roughness at the edges, and it is a question of how far one goes to deal with special cases. My own feeling is that the change will in the end be easier to present and defend, as well as to operate, if we keep it simple and do not attempt to make~~

I should point out, however, that the new fact that the Scottish students start at 17 means

that they will, in future, be the greatest beneficiaries from the switch from the covenant system (from which they were unable to obtain full benefit) to a reduced parental contribution.

BUDGET CONFIDENTIAL

special provisions for particular groups. I would therefore prefer to stick to the position that the new scale will be available for those who start their studies from the beginning of the next academic year, without making an exception of students who are now under 18.



A handwritten signature in the top right corner of the page.

FROM: MOIRA WALLACE

DATE: 8 March 1988

MR BURR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Anson
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Isaac - IR
Mr Corlett - IR
Mr Steward - IR
PS/IR

STUDENTS AND COVENANTS

The Chancellor was grateful for your minute of 7 March. As I explained, he is now inclined to make a concession on 17-year olds, and he has redrafted the letter to Mr Rifkind accordingly. He is also content to make the concession on summer term starters (your paragraph 9), and I should be grateful if you could pass this on at official level.

2. The Chancellor is also content with the recommendations in your paragraph 10: that DES press notices should issue the morning after the Budget; that Chief Information Officers should be warned that there will be press notices, but not what they will say; and that the two-tier parental contribution scale should be presented as for four years only. The Chancellor has noted that the last of these may require a consequential amendment to the Budget speech.

A handwritten signature of Moira Wallace at the bottom of the page.

MOIRA WALLACE



FROM: J M G TAYLOR

DATE: 7 March 1988

MR MACE - INLAND REVENUE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Mr A Wilson
Mr Byatt
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Odling-Smee
Miss Evans
Miss Sinclair
Mr Riley
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Beighton - IR
PS/IR

MAIN INCOME TAX CHANGES: 1988-89

The Chancellor was grateful for your minute of 1 March.

A handwritten signature in black ink, appearing to be 'J M G Taylor'.

J M G TAYLOR



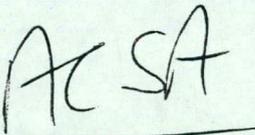
FROM: A C S ALLAN
DATE: 7 March 1988

MR EASON - INLAND REVENUE

cc PS/Financial Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Riley
Miss C Evans
Mr Cropper
PS/IR
Mr Calder - IR

BUDGET INCOME TAX PACKAGE

The Chancellor was grateful for your note of 4 March. He feels we should clearly use the costings based on your Table 2 - ie. restricting differential earnings to the changes shown in the 1986 and 1987 New Earnings Surveys, with no further widening of the income distribution after the first half of 1987-88.


A C S ALLAN

Lollipops put forward in 1987 and worth reconsideration1. IHT 'douceur' concession

This proposal would extend the present IHT, CGT and VAT concession applying to sales of heritage assets to specified bodies by adding private museums, and non-public nature conservancy bodies (such as Royal Society for Nature Conservation, Royal Society for the Protection of Birds, Woodland Trust, and Scottish Wildlife Trust to the list). In one version of the proposal, eligible bodies could be specified by the Nature Conservancy council with the agreement of the Treasury. Cost unquantifiable but could be significant. Previously rejected - difficult to restrict extension to just these bodies (evidenced by the fact that new categories keep being added to the list of "deserving" bodies). Any legislation would have to be complex if it was to contain adequate safeguards both for the property and the tax.

2. Disposal receipts in exempt gas fields

Hardly a "lollipop"

This topic was considered last year but no action was taken. PRT is charged on disposals of field assets, and on the insurance proceeds when they are damaged or destroyed. This is generally the counterpart of the PRT relief given when the assets were acquired or when they are replaced after damage/destruction. But PRT-exempt gas fields are charged on disposals and insurance proceeds even though PRT relief is not available for development or replacement. The industry continues to press the point, particularly the insurance anomaly. In effect, claimants in exempt gas fields can only recover about half of their loss, after PRT. The cost of exempting disposals would be negligible (less than £2m a year). The cost of exempting insurance receipts might be higher, if and when a major accident occurred. Legislation was already drafted on a provisional basis 2 years ago and amounts to ½ page.

New Lollipops1. Extend Widow's Bereavement Allowance to Widowers

This was considered as part of the Independent Taxation proposals (Miss Dyall's note of 6 November 1987 on Sex Discrimination in the Tax System). Ministers decided to keep the proposal in reserve for a Committee Stage concession as there is little pressure for an extension. But it might be worth re-considering as a possible Budget lollipop. Widow's bereavement allowance (which is to stay under Independent Taxation) means that a widow gets total allowances which are the equivalent of the married man's allowance for the tax year of bereavement and the following year also. By contrast a widower receives a similar level of allowances for the tax year in which his wife dies but thereafter gets only the single allowance. There is therefore a case on grounds of both equality and compassion for extending widow's bereavement allowance to widowers. Some 50 thousand widowers would benefit at a full year revenue cost of about £20m. There would however be a continuing staff cost of about 20 units.

2. Extra Relief for the Over 80s

Last year a higher level of age allowance was introduced for people aged 80 and over by increasing age allowance for this group by twice the amount required under indexation. The change was widely welcomed. Increasing age allowance for this group again this year by a higher factor than the other personal allowances would benefit about 400 thousand people. An extra 3.7 per cent increase would cost about £10 million.

triple revaluation?

3. Increase in Limit for Payroll Giving Scheme

By double

The present limit on charitable donations qualifying for the payroll giving scheme, which started in April, is £120 a year (=£10 a month, or a little over £2 a week). The limit could be increased

Introduce a 1990 or 1988 always - so of income allow? plus later?

ANNEX B

24/123
88. A

CONFIDENTIAL

306
12

FROM: R G MICHIE

DATE: 11 February 1988

1. MR CULPIN
2. CHANCELLOR

cc Economic Secretary
Mr Scholar
Miss Sinclair
Mrs Burnhams

VED ON COACHES : BUDGET REPRESENTATIONS : NIGEL FORMAN MP

You asked for a note on Mr Forman's observation that in the interests of equity and the environment, the VED for all coaches should be more than for the private car, so that coaches pay nearer their full track costs, and do not have an unfair advantage over the railways.

2. You will recall that in his letter of 9 December 1987 concerning motoring taxation, the Secretary of State for Transport mentioned that there was a case for a thorough review of the structure of the "hackney" classes - buses, coaches and taxis - as these classes were unique in falling short of track costs. But he did not propose any major changes in these classes this year.

3. The attached table (drawn from a Department of Transport publication) illustrates the road taxation revenue and costs in 1987/88 by vehicle class, and it is evident that the 'buses and coaches' class falls well short of meeting full track costs. The taxation/costs ratio of 0.91 falls markedly to 0.251 when the fuel tax rebates given to buses are taken in account. (Broadly speaking, rebates are given to buses operating scheduled services which have frequent stopping points - not more than 15 miles between stops).

4. The 'buses and coaches' class essentially covers two types of vehicle : buses used for scheduled stopping services and 'staged' coaches used mainly for longer journeys such as inter-city services. However, 'staged' coaches are increasingly being used for commuting purposes, hence Mr Foreman's point about single decker coaches "cluttering up the roads in central London".

MICHE
CHEX
11/2

BUDGET CONFIDENTIAL

FROM: ROBERT CULPIN
DATE: 15 February 1988

CHANCELLOR

*Thanks.
All the
1. I would favour a review with
the intention of getting a better year.
2. What does X amount to?*

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Anson
- Mr Scholar
- Mr Odling-Smee
- Mr Riley
- Miss Sinclair
- Miss Evans
- Mr Michie

- Mr Unwin)
- Mr Knox) Customs & Excise

CULPIN
CH/EX
5/2

VEHICLE EXCISE DUTY ON COACHES

Nigel Forman suggests that coaches should pay at least as much VED as cars, and preferably more. I think he has a point.

2. I attach a list of VED rates (which looks mind-boggling), and a submission by Mr Michie.

3. Coaches are "Hackney carriages" - Item 3 in the list of rates. That title also covers buses and taxis. As you will see, a coach has to have 66 seats before it pays as much as a car.

4. To meet Mr Forman you could presumably do a number of things. For example:

(a) You could double all Hackney carriage rates: that could sit well enough with doubling car scales and capital allowances.

(b) You could say that all coaches up to 65 seats should pay £100, and leave the other rates unchanged.

(c) You could cut through all the detail and say that all Hackney carriages should pay £120, or £150, or any other figure that takes your fancy.

BUDGET

CONFIDENTIAL



FROM: MISS M P WALLACE

DATE: 17 FEBRUARY 1988

MR CULPIN

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Scholar
Mr Odling-Smee
Mr Riley
Miss Sinclair
Miss Evans
Mr Michie
Mr Unwin - C&E
Mr Knox - C&E
PS/C&E

VEHICLE EXCISE DUTY ON COACHES

The Chancellor was most grateful for your minute of 15 February, and Mr Michie's of 11 February. All things considered, the Chancellor would favour a review with the intention of acting next year. He would be grateful if you could provide a draft for him to send to Mr Channon.

Mpw.
MOIRA WALLACE