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PART B

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PART B

1988 BUDGET DEPUTATION AND REPRESENTATION

DD's 25 years NA[illegible] 10/11/95.

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PART B

11-5-88

pmp

Ch/

You might like to see. Did you discuss this at your bilateral with Lordie? (And rule it out?) Helpful for those drafting reply to know.

NO.

SECRETARY OF STATE FOR EDUCATION AND SCIENCE

ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

CH/EXCHEQUER
REC. 01 FEB 1988
ACTION EST
COPIES TO

1/2

spoke to Mrs B.

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

mpw 10/2.

1 February 1988

BF ~~17/2~~ 19/2

Dear Nigel

VAT ON GIFTS OF EQUIPMENT TO EDUCATIONAL INSTITUTIONS

David Young wrote to you on 7 December, pointing out that our VAT treatment of gifts is a disincentive to companies who are minded to make gifts of equipment to educational institutions. I fully agree with everything that David said in his letter: I find it hard to defend the existing practice against the representations we are increasingly receiving, and a tax on gifts of this sort does fly in the face of all that we are trying to do to encourage effective cooperation between employers and education. I hope that you will be able to look at the position again.

I am copying this letter to David Young.

"A modest proposal"!

Yours ever

Kenneth

CONFIDENTIAL

441/018/AC

FROM: MRS T C BURNHAMS

DATE: 3 February 1988

AS 3/2

1. MISS ~~SINCLAIR~~

2. CHANCELLOR OF THE EXCHEQUER

Thanks. Pse let me have a list of all those organisations that have recommended (a) X and (b) Y, & pse confirm that Z is now a Budget Starter. NL.

PS over

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Scholar
Mr Culpin
Miss Evans

PS/IR
Mr Marshall - IR
PS/C&E
Mr R Allen - C&E

1988 BUDGET REPRESENTATIONS

I attach a summary of representations received in January as follows:

i. A summary of the representation from eighteen organisations, together with a matrix covering the main points made.

ii. At Annex A a list of subjects raised in correspondence from members of the public either directly or through their MPs, and by the less important organisations (listed at Annex B). Because of the increasing number of letters now being received the subject list is confined to subjects mentioned by more than one correspondent.

2. The question of increased public spending rather than tax cuts has now clearly overtaken all other topics as the most popular topic of correspondence. There is a continuing interest in tobacco duty and CGT, and the number of letters proposing tax concessions for the elderly is increasing steadily. A campaign has just began to support increased tax relief for luncheon vouchers supplied by employers and

twenty-six letters have been received on this subject in the last two weeks. For completeness, Annex A now shows the total number of letters received on each subject.

3. The last summary of Budget representations will be submitted at the beginning of March.

The matrix ~~this~~ shd be confined to ~~matrix~~ the ~~[illegible]~~ significant organisations only.

Teresa Burnhams

MRS T C BURNHAMS

441/013/AC

Association of Investment Trust Companies

Centre for Policy Studies

Bristol Junior Chamber of Commerce

Development Commission for Rural England

Institute of Directors

Association of British Chambers of Commerce - (further representations)

Wider Share Ownership Council - (further representations)

London Chamber of Commerce

Birmingham Chamber of Commerce

Electronic Engineering Association

Bow Group

Charities VAT and Tax Reform Group

National Association of Master Bakers, Confectioners and Caterers

Automobile Association

British Holiday and Home Parks Association Limited

British Retailers Association - (further representations)

National Union of Seamen - (further representations)

National Federation of Self-Employed and Small Businesses Ltd

Association of Investment Trust Companies

- Revise definition of an approved investment trust
- Make PEPs regulations less restrictive and increase annual limit to £5000
- Abolish Stamp Duty on transferable securities
- End provisions of accrued income scheme on conversion of convertable loan stocks.

Centre for Policy Studies

- Remove tax privileges in order to allow lower tax rates.

Bristol Junior Chamber of Commerce

- Lower tax rates for profits of unincorporated businesses placed in reserve funds or reinvested
- VAT exemption for Charities
- X Schedule D tax to be on a current year basis
- Tax incentives for corporate venturing
- Abolish Class 4 NICs.

Developement Commission for Rural England

- Capital Allowances - change to a straight line write off over 4 years
- Tax relief for first £30,000 of investment by unincorporated businesses.

Institute of Directors

- Abolish higher rate IT, CGT and IHT
- Reduce IT to 25p immediately then 20p

- Reduce CT and increase business and agricultural property relief to 100%
- Relief for investment in unquoted companies
- Introduce Child Tax Relief to replace Child Benefit
- Relief for private health insurance
- Reduce VAT to 10%.

If CGT and IHT not abolished -

- Restrict tax on gifts made between 3 and 5 years of death
- Reduce IHT and CGT rates to 20%
- Abolish CGT for assets held for 10 years and introduce general rollover relief.
- Less restrictions on pensions
- Some integrations of tax and NICs but separate identities maintained
- Freeze excise duties or limit increase to revalorisation
- Independent taxation - keep option of present arrangements, but replace MMA by transferability of income between spouses.

Association of British Chambers of Commerce

Y1
- Remove UEL on employees NICs
- Remove NICs liability from employees for all earnings below LEL
- IT basic rate 25p, higher rates 30p and 40p
- Reduce CT
- Abolish CGT for assets held at least 2 years and 40% rate on short term gains
- Abolish Stamp Duty on share transactions
- Increase threshold for PIID.

Wider Share Ownership Council **(further representations)**

- Abolish CGT and Stamp Duty

Z1
- Restrict approval of executive share option schemes to companies with all employee schemes.

London Chamber of Commerce

- IT basic rate 25p, top rate 40p
- Remove employees UEL for NICs
- Reduce CT

Birmingham Chamber of Commerce

- Reduce IT
- Increase VAT threshold
- Reform of IHT
- Abolish Stamp Duty on share transactions
- Increase PIID threshold
- Reduce CGT to 25% with eventual abolition
- Increase limit on pension contributions
- Less restrictions on relief for share purchase.

Electronic Engineering Association

- Reduce CT to 1984 levels
- Tax incentives for R & D.

Bow Group

- Phasing-out of MIR
- Halt the trend towards indirect taxes
- BES limited to poorest regions only.

Charities VAT and Tax Reform Group

- Increased VAT relief for charities
- Less restrictions on deeds of covenants
- Transitional tax relief when tax rates reduced.

National Association of Master Bakers, Confectioners and Caterers

- VAT no extension and threshold increased
- Increase PIID threshold
- Tax relief for investment reserves
- Extend BES to proprietors
- Increase threshold for IHT and reduce 7 year period
- Increase CGT relief to £200,000 for each director or partner as an age relief 10 years before state retirement age
- Capital Allowance - introduce 25% PA write down allowance.

Automobile Association

- Increase investment on roads
- Freeze duty on petrol and VED.

British Holiday and Home Parks Association Ltd

- Remove disincentive on letting income
- Reduced IT rate for low paid
- Integrate IT and NICs
- Capital Allowances on a replacement cost basis
- Remove tax penalty on sole traders or partnerships
- Abolish Schedule A
- VAT rebates for non EEC nationals on holiday in UK
- Wider BES relief.

British Retailers Association **(further representations)**

- Capital Allowances to be extended to commercial buildings
- CGT - introduction of Group Relief Scheme
- More graduated IT rates
- Increase PIID threshold to £30,000
- Lessen compliance burden on business.

National Union of Seamen (further representations)

- Restore tax relief for seafarers
- BES for shipping companies to be conditional on employment of UK seafarers.

National Federation of Self Employed and Small Businesses Ltd

- Remove tax disadvantages of non-incorp. bus.
- Increase relief for pension plans for non-corp. bus.
- Less restrictive write-down allowances, change to straightline basis
- Reintroduction of 100% Capital Allowance
- Discount for prompt payment of tax and VAT
- Abolition of CGT, tax on short term gains only
- Tax relief for self-employed NICs
- Amalgamation of NICs and IT
- More flexible penalty regime for VAT.

	ASSOCIATION OF INVESTMENT TRUST COMPANIES	CENTRE FOR POLICY STUDIES	BRISTOL CHAMBER OF COMMERCE
PERSONAL TAX		Remove tax privileges generally. Reduce tax rates for individuals	Lower tax rates for funds reinvested by unincorporated companies
STAMP DUTY	Abolish for transferable securities		
CGT	Revise definition of approved investment trust		
IHT			
CT			Tax incentives for corporate venturing. Schedule D tax on a current year basis
CAPITAL ALLOWANCES			
BES			
VAT			Increased exemptions for charities
EXCISE DUTY			
BETTING AND GAMING			
PEPs	Less restrictive regs. Increase annual limit to £5000		

	DEVELOPMENT COMMISSION FOR RURAL ENGLAND	INSTITUTE OF DIRECTORS	ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE
PERSONAL TAX	Tax relief for 1st £30,000 of investment by unincorporated businesses	Abolish higher rate. Reduce IT to 25p and later 20p. Child tax relief to replace Child Benefit. Relief for Private Health Insurance. Relief for investment in private companies. Replace MMA by t/f of income between spouses.	Reduce basic rate to 25p higher rates to 30p and 40p. Increase PIID threshold
STAMP DUTY			Abolish for share transactions
CGT		Abolish but if not reduce rate to 20% and apply to assets held for less than 10 years. General rollover relief.	Abolish for assets held for 2 years. 40% rate on short term gains
IHT		Abolish but if not limit on gifts made between 3 and 5 years of death and reduce rate to 20%	
CT		Reduce rate and increase relief to 100% for bus. and agricultural property	Reduce rate
CAPITAL ALLOWANCES	Write-off relief to be on a straightline basis over 4 years		
BES			
VAT		Reduce rate to 10%	
EXCISE DUTY		Freeze duties or limit to revalorisation	
BETTING AND GAMING			

	WIDER SHARE OWNERSHIP COUNCIL	LONDON CHAMBER OF COMMERCE	BIRMINGHAM CHAMBER OF COMMERCE
PERSONAL TAX	Restrict executive share option schemes to companies with all-employee schemes	Reduce basic rate to 25p and top rate to 40p	Reduce IT. Increase PIID threshold. Increase limit on pension contributions. Less restrictions on relief for share purchase
STAMP DUTY	Abolish		Abolish for share transfers
CGT	Abolish		Reduce rate to 25%
IHT			Reform
CT		Reduce	
CAPITAL ALLOWANCES			
BES			
VAT			Increase VAT threshold
EXCISE DUTY			
BETTING AND GAMING			

	ELECTRONIC ENGINEERING ASSOCIATION	BOW GROUP	CHARITIES VAT AND TAX REFORM GROUP
PERSONAL TAX		Phase out MIR	Less restrictions on Deeds of Covenants Transitional tax relief when rates reduced
STAMP DUTY			
CGT			
IHT			
CT	Reduce CT to 1984 levels. Tax incentives for R & D		
CAPITAL ALLOWANCES			
BES		Limit to poorest regions only	
VAT		No increase in indirect taxation	Increase VAT relief
EXCISE DUTY			
BETTING AND GAMING			

	NATIONAL ASSOCIATION OF MASTER BAKERS, CONFECTIONERS AND CATERERS	AUTOMOBILE ASSOCIATION	BRITISH HOLIDAY AND HOME PARKS ASSOCIATION LIMITED
PERSONAL TAX	Increase PIID threshold Tax relief for investment reserves		Change treatment of letting income, abolish Schedule A. Reduced rate of IT for low paid. Integrate IT and NICs. Remove tax penalties on sole traders or partnerships
STAMP DUTY			
CGT	Increase relief to £200,000 for each Director or Partner as an age relief 10 years before state retirement age		
IHT	Increase threshold and reduce 7 year period		
CT			
CAPITAL ALLOWANCES	25% pa write down allowance		Change to replacement cost basis
BES	Extend to proprietors		Widen relief
VAT	Increase threshold		Rebates for non-EEC nationals on holiday in UK
EXCISE DUTY		Freeze duty on fuel	
BETTING AND GAMING			
VED		Freeze duty rates	

	BRITISH RETAILERS ASSOCIATION	NATIONAL UNION OF SEAMEN	NATIONAL FEDERATION OF SELF-EMPLOYED AND SMALL BUSINESSES LIMITED
PERSONAL TAX	More graduated IT rates. Increase PIID threshold to £30,000	Restore tax relief for seafarers	Remove tax disadvantage of non-incorp. businesses. Tax relief for self-employed NICs. Amalgamation of IT and NICs
STAMP DUTY			
CGT	Introduce Group Relief Scheme		Abolish for short term gains
IHT			
CT			
CAPITAL ALLOWANCES	Extend to Commercial Buildings		Less restrictive write-down allowance. Change to straightline basis. Reintroduce 100% allowances
BES		Relief to shipping cos. to be conditional on employ. of UK seafarers	
VAT			More flexible penalty regime
EXCISE DUTY			
BETTING AND GAMING			

Subject	Letters received in January	Total to date
Increase public spending rather than tax cuts	232	281
Increase tobacco duty	83	171
More tax concessions for the elderly	76	112
Abolish or reduce CGT	66	123
Increase personal allowances	40	56
End penalty on marriage	38	87
Freeze tobacco taxation	28	75
Tax Relief for private health insurance	26	31
Increase tax relief for LVs	26	26
Support Independent Taxation	24	54
Increase differential on unleaded petrol	23	35
Increase higher rate tax	17	25
Abolish or reduce Inheritance Tax	15	21
Increase Tax on company cars	15	15
Support tax cuts	11	16
Abolish or reduce Stamp Duty	11	18
Tax relief for savings	10	10
Increase number of goods exempt from VAT	9	9
Freeze duty on alcohol	7	12
Against abolition of MMA	6	6
Increase tax concessions for widows	6	8
Tax relief for domestic help	6	16
Increase duty on alcohol	4	8
Reduce higher rate tax	3	3
Increase VAT threshold	3	5
Introduce reduced rate of tax for low paid	3	3
Abolish or reduce MIR	3	8
Tax incentives for non-working mothers	3	3
Abolish VED and increase petrol duty	3	8
Increase basic rate tax	2	4
Reduce duty on low alcohol beers and wine	2	2
Ease restrictions on PRP Schemes	2	2
Tax relief for carers	2	2
Increase tax advantages for charities	2	4
Extend BES relief	2	3
Increase Capital Allowances	2	6
Increase MIR threshold	2	4
Increase VAT threshold	2	4
Reduce duty on aviation fuel	2	5
Increased relief for disabled	1	3

LIST OF OTHER ORGANISATIONS

British Chemical Engineering Contractors Association

Industrial Participation Association

Conoco Limited

The Forum of Private Business

Conservative Women's National Committee

The Pet Food Manufacturers Association

The American Community School Limited

BES Investment Research Limited

Esselte Letraset Limited

British Agricultural and Garden Machinery Association Limited

Charterhouse Development Capital Limited

Horserace Betting Levy Board

pmp

The Association of
British Chambers of Commerce
Sovereign House, 212a Shaftesbury Avenue
London WC2H 8EW
Telephone: 01-240 5831 Telex: 265871 MONREF G CHA001 Fax: 01-379 6331

DIRECTOR-GENERAL: R.G. TAYLOR

A C S Allan Esq
Principal Private Secretary
to the Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

4 February 1988

Dear Alex,

My senior officers of this Association are most grateful that the Chancellor of the Exchequer has found time to meet them to discuss our Budget representations. We have been concerned to present views which are calculated to be beneficial to industry and commerce in their effects, but are, we hope, also realistic and helpful to the Chancellor in the wider economic and political climate in which he must shape his Budget.

Our team for next Friday's meeting is as follows:

R T S (Tommy) Macpherson, Chairman of National Council

R S (Roger) Burman, Chairman, Economic and Industrial Committee

D M (Miles) Middleton, Vice-Chairman, Economic and Industrial Committee

R G (Ron) Taylor, Director-General

and myself.

The broad headings under which we would propose to speak are:

- review of changed circumstances since our submission was drawn up in early December. Increased revenue forecasts. Inflation/pay worries. Prospect of growth slowdown. Level of borrowing. We will refer to our 4th Quarter Survey of business opinion.

- Importance of exchange rate stability. Key £/DM ratio. Implications for interest rates and control of inflation. Question of exchange rate mechanism.

- Focus on reform of personal taxation (para 24 et seq. of our budget submission, of which I enclose further printed copies).

- refer also to impact of Budget on business. Total tax take, including NICs and rates.

../..

- Corporation tax (para 33) (referring briefly to firms' interests including review of P11D's)

- Capital Gains Tax (para 35).

We will not be raising technical tax matters as these were fully aired when our Taxation Committee met the Deputy Chairmen of Inland Revenue recently.

I trust that this is helpful. I am, of course, available if more detail of our views are required before or after the meeting.

We will present ourselves at your Parliament Street entrance in good time for an 11.15 start and we understand that the meeting must finish promptly before 12 noon. None of us will require car parking.

Yours sincerely

A D Lansley
Director, Home Affairs

BUDGET 1988

Submission to the Chancellor of the Exchequer from the Association of British Chambers of Commerce.

Introduction

1. The British Chambers of Commerce have shared the objectives underlying the Government's previous Budgets. These have consistently been: the conquest of inflation, the creation of an enterprise culture, and fostering conditions in which growth in the economy can be maintained and lasting jobs created.

2. The validity of these objectives has in no sense been reduced. They should remain at the corner-stone of the Chancellor's budget strategy and Chambers of Commerce are confident that they will be so.

3. Nor would we expect the essence of the Government's policies to be changed: sound money and free markets. To these, however, we feel we must add another which, while implicit in this Government's philosophy, has slipped from view: **putting wealth-creation first.** Within a given level of public expenditure, and in the priorities chosen for action by Government, including tax changes, it is becoming easier to place to the fore social objectives, particularly the reform and improvement of health and education services, and the reduction of the personal tax burden. That is hardly surprising. They are vital and necessary reforms. The last General Election rightly showed how the future of our health and education services, *and* the level of taxes on individuals weighted very heavily with voters. None of these objectives could be sustained, however, without the continuing improvement of the wealth-creating sectors of our economy.

4. As Chambers of Commerce, all over the country, we see at a local level, as well as national, how **business provides the basis for the well-being and improving welfare of the community.**

5. We therefore **call for a budget** whch takes further steps forward in **helping commerce to create wealth: a Budget that builds for the future.**

ECONOMIC BACKGROUND

6. The background to this Budget is likely to be set by two contrasting features. The performance of British industry and commerce continues to improve. However, the climate in which UK industry trades is increasingly beset by storms, largely external to the economy of the UK.

7. Company performance in the UK has moved ahead strongly since 1981. The real rates of return on capital in manufacturing, and for industrial and commercial companies generally, excluding North Sea, has improved year-on-year from 1981 to 1986, although it still has some way to go. In conditions of continued growth and low inflation, we would look for this improvement to be maintained and further increased levels of real rates of return on capital as a basis for corporate growth and re-investment.

8. Key ingredients to improving profitability are productivity and competitiveness. Productivity of both labour and capital have improved strongly. Allied to this has been relatively slow growth in non-wage labour costs. Between 1986 and 1987, unit labour costs in manufacturing have hardly increased. This is very favourable relative to our major competitors, who are continuing to show year-on-year increases in unit labour costs. Recent indications suggest a less satisfactory trend between 1987 and 1988 so there is no cause for complacency. Given the record of Japanese and German companies in recent years, the objective must be to achieve zero growth in unit labour costs. This is as much a counsel to our own members as it is to the public sector.

9. We foresee a further easing of the non-wage input costs to industry. If specific duties were to be fully revalorised and if interest rates were to remain at their present levels, we see no reason markedly to change the Autumn Statement forecast for change in the RPI in 1988.

(continued . . .)

£1.50

ABCC

The Association of
British Chambers of Commerce
Sovereign House, 212a Shaftesbury Avenue
London WC2H 8EW. Telephone: 01-240 5831 6

10 This sense of equilibrium does not, however, extend to measures of growth and our trade balance. The stock market falls in the United States are evidence of a sharp reversal of confidence in financial markets in the face of the U.S. trade and budget deficits. There may be painful adjustments affecting interest rates, exchange rates and the level of our exports to the USA. In particular, a damagingly substantial rise in real U.S. interest rates is in prospect, **unless** a countervailing reduction in interest rates here and elsewhere can be achieved and sustained. Without an increased interest rate differential the downward pressure on the Dollar may be expected to continue. An effort to maintain exchange rate levels when unsupported by economic fundamentals would pose far too great a danger to UK domestic monetary conditions.

11. The British Chambers therefore foresee difficult trading conditions in international markets. U.S. firms, faced with poor domestic demand and a depreciating dollar, wil be seeking to regain overseas markets. UK companies will find it progressively more difficult to maintain exports to the U.S. Whatever expansion can be generated in German and Japanese markets will be on very tight margins and difficult to capture.

12. In domestic markets, our high import propensity may serve us badly. There is, however, a role for Government here. Central Government, local authorities and public bodies who, between them, import goods worth over £5bn per annum, must take a strong new initiative by adoption, training and practice of 'positive purchasing' – i.e. the long term development of, and commitment to, UK sourcing without any public cost penalty.

13. Without such positive action, the short-run prospect, therefore, is of a reduced rate of increase in demand, not compensated by increased Government consumption or fixed investment. The resulting effect may be a slowdown in growth prospects to a lower increase in GDP in 1988 over 1987 compared with the previous year. Manufacturing output may continue to grow somewhat faster than GDP in total.

14. This level of growth will, nonetheless, put the UK among the faster-growing of the major industrialised countries. The probable increase in imports which this may draw in, allied to a further fall in the value of our oil surplus, makes us foresee a further relatively sharp deterioration in the UK's visible trade deficit.

15. In the light of the views we take regarding inflation and growth, we would expect a target for change in nominal GDP in 1988, compared to 1987, of about 7 per cent. This compares with an overshoot by 1 per cent on the target of 7½ per cent for the change in money GDP, between 1986/7 and 1987/8, since the last Budget. This has been largely evidenced in higher than expected growth, and is therefore no cause for complaint. The decline in sustainable growth expectations, however, suggests that the Government can achieve a return to a downward path in the rate of growth of nominal GDP without excessively tight monetary conditions. In particular, we believe that a target of 7 - 7½ per cent change in money GDP in 1988-89 compared to this year is consistent with both further reductions in interest rates and a public sector borrowing requirement (PSBR) higher than the outturn in fiscal 1987-88. The expansion in borrowing domestically to which this would give rise is, we believe, consistent with the capital inflows resulting from increased deficits on the UK's current trade balance, the improved attractions of Sterling in preference to the Dollar, and a higher personal savings ratio. The combined effect of these policies should give rise to a modest and welcome easing of the sterling exchange rate.

16. In considering the further reduction in interest rates, we have regard to the acknowledged strength of the UK economy, which must be incompatible with a real interest rate of 4 per cent compared with West Germany's 1¾ per cent. We also note that the lower our interest rates the more flexible they are as an instrument of monetary control.

17. Finally, Chambers look forward to continued growth in employment. We remain concerned at the level of long-term unemployment and its social implications. We therefore put strong emphasis on measures to improve the supply of skilled labour, and assistance for those who are unemployed to retrain for useful work. We look forward to the constructive role which Chambers can play in the new training schemes for the adult unemployed.

FISCAL POLICY

18. It is too early now to make an accurate assessment of the fiscal outturn PSBR for 1987-88 or the prospects for general government receipts in 1988-89. However, some provisional assessment may be made as a basis for the proposed tax measures to follow.

19. The latest figures suggest that there will be a very substantial undershoot on this year's PSBR, even a surplus. Between 1986/7 and 1987/8, for illustration, the rate of growth in the public expenditure planning total (at 5.8%) looks set to be very substantially exceeded by the growth in tax revenues (more than 8.7%). The latter is in practice broadly equivalent to the rate of change in money GDP. It is clear that the rate of growth in public expenditure between 1987/88 and 1988/89, at 6.2 per cent, will probably again be outstripped by the growth in tax revenues. If, therefore, tax revenues next year were to increase at not less than 7% in line with money GDP changes, one can estimate that the scope for tax reductions consistent with a £1bn PSBR is £3½bn, but with a substantial margin of error. We believe these estimates, however, to be conservative, given the trend in average earnings and, in particular, the growth in yield from Corporation Tax.

20. In the light of the prospective levels of demand and activity described earlier, however, the ABCC proposes a fiscal stance less restrictive than this; one which avoids any risk of an overall deflationary impact, which indeed provides a modest fiscal stimulus overall, but which need not imperil the target for money GDP nor lead to increases in interest

rates. What such a level is must be a matter of judgement, not least in the light of indicators (and market expectations) shortly prior to the Budget. However, for these purposes, the ABCC would take an initial view that a PSBR of £2½bn may be broadly consistent with this approach. This would suggest a fiscal adjustment of some £5bn.

1988/89 Budget Arithmetic

£ Billion

	1986/87 Outturn	1987/8 Autumn Statement forecast	1988/89 ABCC Estimate
General Government Expenditure	165.1	172.8	180.3
General Government Receipts	160.3	171.1	182.0
General Government Borrowing requirement	4.9	1.7	–1.7
Public Corporations Market – Overseas Borrowing	–1.5	–0.7	–1.0
PSBR	3.4	1.0	–2.7
Memo: Autumn Statement planned PSBR in 88-89			1.0
Hence: scope for fiscal adjustment			3.7
ABCC proposed PSBR			2.5
Hence: ABCC proposed scope for tax reductions			5.2

TAX REFORM

21. **The start of a new Parliamentary term, with the present Government's achievement of relative control over public spending and buoyant tax revenues, gives a clear opportunity for substantial tax reform.** There are many candidates for action. Our tax system is far too complex and riddled with anomalies. Principal amongst these is the eccentric pattern of marginal personal tax rates engendered by the interaction of income tax and NICs. Hardly less important is the disincentive effect of the high marginal tax rates both at the top and bottom of the income scale. The tax treatment of husbands and wives is also ripe for reform. In corporate tax, the major reforms of 1984 removed distortions, but have left corporations vulnerable to an increase in inflation and the tax system retains a bias towards debt rather than equity finance. Many detailed points would benefit from early publication of a Technical Tax Bill, and more relaxed consultation. We strongly advocate this.

22. **It is tempting to look only for radical and all-embracing solutions to these problems. It may not, however, be possible to achieve those which best meet the need within the resources that are available in one Budget. We seek, therefore, a firm statement of intention, combined with a series of steps in that direction, as the right way forward.**

23. We believe this Government's objectives in tax reform thus far have been healthy, and are bearing fruit. The pursuit of tax neutrality, of limited reliefs and lower basic rates, of restoration of incentives, of simplicity and enforceability, have all found favour with our members. There are now some further major steps to be taken.

PERSONAL TAXATION

24. The major priorities for Chambers in relation to personal tax are two-fold: to reduce the overall burden; and to increase incentives by removing the anomalous and damaging effects of the high marginal rates. **We therefore propose a series of four very major changes. We must emphasise most strongly that these changes are a package. They stand or fall together in the effects they are intended to achieve.**

25. **The four changes are:–**

- **to remove employees NIC liability in respect of all earnings *below* the Lower Earnings Limit – (i.e. £41 per week from April 1988);**
- **to make employees NIC payable in respect of all earnings, i.e. to remove the Upper Earnings Limit on NIC;**
- **to reduce the higher rates of income tax to 30 per cent from the top of the basic rate band up to £34,800 of taxable income, and to 40 per cent thereafter;**
- **to reduce the basic rate of income tax by two pence to 25 per cent.**

26. We believe these proposals would have a major impact on incentives. For those reaching the lower earnings limit for NIC they would not face penal marginal rates and a "poverty trap" effect by the levying of NIC on all their earned income. The dramatic jump in the marginal rates of tax from 27 per cent to 40 per cent would be removed, as would the top rate of 60 per cent, which is an unjustifiably high impost and which, in the face of much lower marginal rates in some other countries, now needs urgently to be reduced.

27. These changes would lead to a very different and much more coherent pattern of marginal rates. This is illustrated in the graph at Annex A. It will be observed that the marginal tax rate, taking both income tax and NIC into account, will be lower or unchanged across the income range, with the exception of those with earnings above the UEL on NIC but below the threshold for the higher rates of income tax. The proposal is, however, intended to be on a "no losers" basis. Within the four changes proposed "losers" on one count will broadly gain on others. The estimated effects of all four changes on a range of taxpayer incomes is shown, for illustration, in the table at Annex B.

28. We recognise the very substantial net cost of these proposals. They would absorb a very large proportion of the scope available for tax reductions in this Budget. Although we propose other measures later in this submission, we accept that the reform of personal taxation must be the centrepiece of this Budget.

29. We should note that the effect on the National Insurance Fund of these changes may be somewhat to reduce the contributions overall. Given the buoyancy of payments into the Fund, and reducing unemployment, this may not be of concern. If it were, it would be preferable to increase the Treasury Supplement rather than lose the opportunity to rationalise the tax system.

30. In regard to the taxation of husband and wife, the response to the Green Paper "The Reform of Personal Taxation" indicated no consensus of support for fully transferable allowances. The objections to those proposals would, however, be substantially met by a scheme of partially-transferable allowances. While such a scheme should be introduced on a "no loser" basis, it will also be important that the scheme yields, at least in part, the benefit to single-earner couples with children which were predicted with a fully transferable allowance scheme. The introduction of a scheme solely to achieve independent taxation would not be sufficient. This will doubtless be very costly and a scheme may well need to be phased in, utilising very largely the indexation of allowances. The Chambers hope that the Chancellor will come forward with proposals in this Budget for such a scheme to be introduced later in this Parliament.

BUSINESS TAXATION

31. As we have emphasised at the opening of this submission, the Chambers believe this Budget should be a means by which the ability of commerce to create wealth is further enhanced. The key to this is the rate of return, and the consequent levels of profitability, as source of funds for investment, R & D and return to capital. The impact of the Corporation Tax regime is therefore of key importance to the bulk of business.

32. Following the 1984 reforms, which we have welcomed; we note that the total Corporation Tax take has risen considerably. Insofar as this reflects improved profitability, it is natural and unsurprising. But we also note that the present regime, compared to the pre-1984 CT system, while more neutral in its impact on different types of investment, has significantly increased on average the pre-tax rate of return required for a given post-tax return.

33. **Chambers therefore believe that a reduction in both the full rate and the small firms' rate, of Corporation Tax is needed in this Budget. We would urge that this should be not less than a two per cent reduction, in line with the prospective reductions in the basic rate of personal taxation. This will give a highly desirable boost to investment, to income from equity investments and to industry's capacity to undertake R & D.**

34. There are two further measures which, we believe, in their present form act as a continuing disincentive to investment in industry. In both areas, we would welcome the exercise of the Chancellor's commendable instinct that taxes should be removed completely where possible.

35. The first is Capital Gains Tax. We continue to regard this as, in the words of the previous Chancellor in 1979, "unjust and absurd". Its incidence is increasingly eccentric and its administration a considerable burden. We recognise, however, the difficulty of fixing upon a means of preventing the conversion of income into short-term capital gains solely for tax purposes. We therefore propose that CGT should be abolished for long-term capital gains, i.e. in respect of assets held for over two years, except in the case of the prior death of the holder. The short-term gains should be taxed at 40%, equivalent to the top rate of personal tax which we have recommended. Such a system would do much to curb the activities of purely speculative investors whose 'short-termism' has been widely and rightly criticised.

36. The second measure we propose, but to which we attach a lesser priority, is the abolition of stamp duty on share transactions. Previous arguments in favour of this buoyant source of revenue amounted to a desire to retain the "creaming-off" of some of the considerable gains in share prices. This hardly now applies to the same extent, and its true character, as a tax on the beneficial movement of capital and an administrative burden on the City and business, warrants its removal.

37. **In view of the potential for interaction between personal and business tax rates, we attach importance to the steps outlined above to bring business and personal tax rates into a more narrow spread of rates. With the basic rate at 25 per cent, the higher rates no more than 40 per cent (or 49 per cent, including NIC) and with CT at 33 per cent and CGT at 40 per cent, the incentive to structure one's affairs solely for tax purposes will be reduced as compared with the present structure. This is a valuable benefit, on which we hope the Chancellor will be able to build in future years.**

AN ENTERPRISE PACKAGE

38. In the same way as, in former years, a package of expenditure and tax measures has been presented in the Budget as a specific remedy for unemployment, we believe the time is right in this Budget for a similar package **aimed at promoting enterprise.** We envisage a mix of expenditure and tax measures, directed towards targeted problems, such as:

- ways of increasing the training activity of companies. The Chambers will be responding to the MSC's consultation document "The Funding of Vocational Education and Training" with proposals in this respect.

- ways of increasing companies R & D activity. In particular, Chambers will be looking at the incentives available to smaller and medium-sized firms to contribute to collaborative research through, for example, Research Associations. We would emphasise, however, that in spite of much media comment, research remains relatively strong in this country, but development of that research is much weaker and ways of stimulating it require urgent study.

- scope remains for specific infrastructure projects which would benefit industry, particularly in the Regions, but which are not provided for in Public Expenditure plans. The ABCC is ready to identify priorities amongst these for inclusion in such a package.

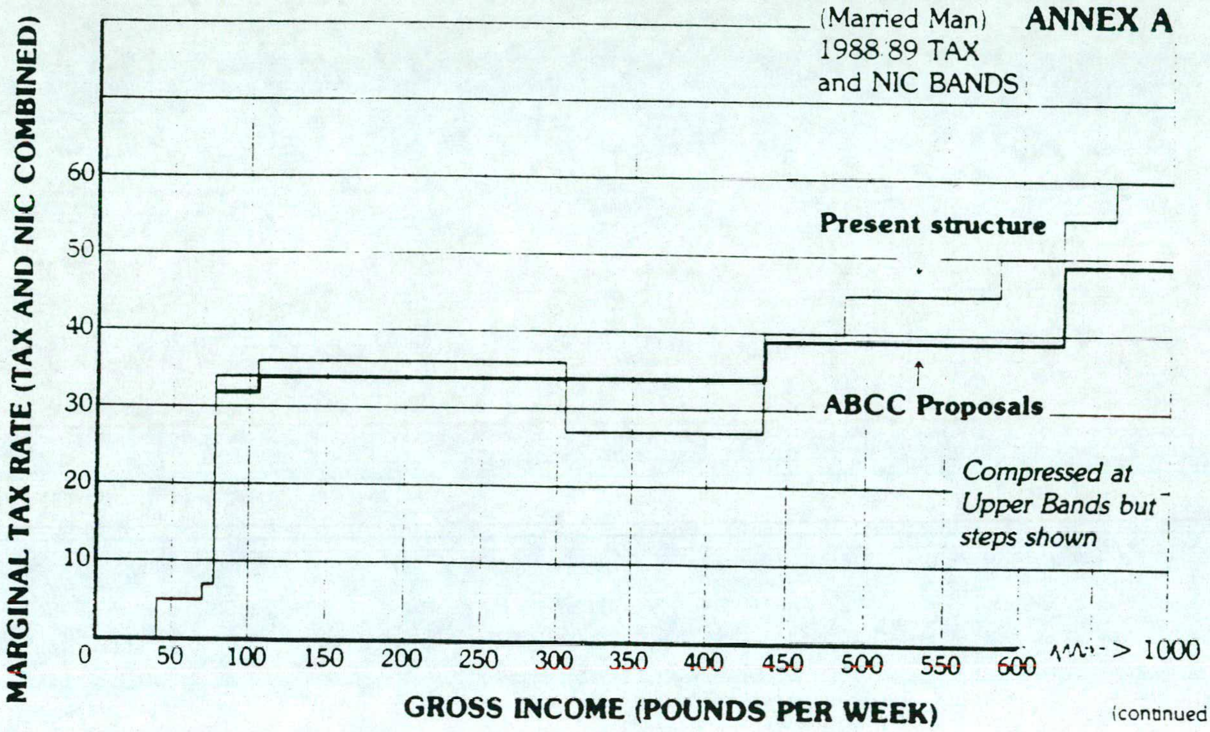
- contributions by local industry to specific non-profit making bodies, charged with undertaking activities beneficial to that local community, but where the body is not charitable, should be tax-allowable as a spur to self-help, particularly in the inner cities. The Chambers of Commerce have produced separate details of this.

- and a range of other matters on which the ABCC's Small Firms' Panel have made representations to the Small Firms Minister, and which we hope will be reflected in the representations which he makes on behalf of small firms' interests generally. In particular, we believe that there is a strong case for the first tranche of taxable profit to be at the basic rate of income tax up to a profit of £100,000 and, similarly, the first tranche of investment expenditure up to £25,000 per year should be allowable for 100% depreciation. Chambers are also keen to see radical changes in the P11D system which is complex and the administrative burden grossly disproportionate. The £8,500 threshold is absurd. It should at least be raised to equivalence with the higher rates of income tax. More generally, an urgent review of the whole system is needed, to which the ABCC would be glad to contribute.

CONCLUSION

39. Chambers of Commerce commend these proposals to the Chancellor of the Exchequer. We recognise the need for further discussion and clarification of some of these ideas. We will be doing so, in consultation with our member Chambers and other business organisations. The Chambers may wish to add to these representations in the light of events in the weeks leading up to the Budget Statement. The ABCC would welcome the opportunity to make personal representations to the Chancellor of the Exchequer in advance of the finalisation of the Treasury's Budget proposals.

ANNEX A



(continued)

ANNEX B

£

Taxpayer Income (Weekly) (ALL EARNED)	£ Present TAX	NIC	TOTAL	£ Proposed TAX	NIC	TOTAL
50	NIL	2.50	2.50	NIL	0.45	0.45
100	6.47	7.00	13.47	5.99	4.13	10.12
200	33.47	18.00	51.47	30.99	14.31	45.30
300	60.47	27.00	87.47	55.99	23.31	79.30
400	87.47	27.45	114.92	80.99	32.31	113.30
600	169.27	27.45	196.72	139.20	50.31	189.51
800	272.19	27.45	299.64	199.20	68.31	267.51
1000	432.80	27.45	460.25	284.66	86.31	370.97

Notes:
1. All Examples shown are for a married man with wife's earnings disregarded or nil for these purposes.
2. The 'present' examples are for allowances after April '88 indexation and NIC after April '88 changes.
3. All NICs are on a "contracted-in" basis.

January, 1988

CHANCELLOR OF THE EXCHEQUER

Ch/

Note on VED has been commissioned. Philip Wynn-Owen has done draft for PMG to send on PRP points (Flag X). Does this answer your queries or shall we ask for a separate note / hold up the reply?

MPW

9/2

No need ~~for~~ to hold up PRP letter. I await VED note.

Told PMG's

From: Nigel Forman.
4th February 1988.

To: Chancellor.

case for thorough review

Budget Representations.

1. I have received two further Budget representations from colleagues in the House which I believe I should pass on to you for your consideration. The one from Greg Knight is on VAT and gaming machines and on bingo duty. The other is from Hal Miller on Profit Related Pay and has already been sent to you, I believe, on 26th January.

2. While I am at it, I have a small Budget point which I should like to put to you myself - quite apart from the memorandum on tax reform which I sent to you dated 15th September 1987. It is that you should consider correcting the obvious anomaly and injustice whereby on the sliding scale of Vehicle Excise Duty for coaches it is only monster coaches of 80 seats which pay more than a private car (£115-50p as compared with £100) and what I would describe as the normal single-decker which clutters up our roads - especially in central London - pays only £85 for a 51 seat vehicle. Surely in the interests of equity and the environment the V.E.D. for all coaches should be substantially more than it is for the private car, not least because otherwise such coaches are unlikely to be paying their full track costs and continue to have an unfair advantage over the railways.

3. I was button-holed again this morning by Geoffrey Johnson-Smith who emphasised in the strongest possible terms one of the points which he made last night in your room at the House. He is convinced that for presentational reasons it will be vital for your Budget speech to include a general, sympathetic reference to the need to be generous in public expenditure on the N.H.S., otherwise he fears that the politics of being seen to produce another 'Budget for the rich' against the current N.H.S. background will prove disastrous for us - and for you in particular.

3901/033

APS/Chancellor

Moira, You asked about this case. Relevant papers attached. Please let me know if you want anything else. Phil Wynn Owen 8/2.

FROM: N G FRAY
DATE: 5 February 1988

1. MR WYNN OWEN Rms 5/2
2. MCU
3. PAYMASTER GENERAL

cc Mr MacAuslan
Mr Annys - IR
Mr Nisbet - PRPO

PRP: LETTER FROM HAL MILLER MP

Hal Miller MP wrote to the Chancellor on 26 January on behalf of a neighbour Mr Tidmarsh, Sales Director of Activity Sports and Toys, covering a letter sent by Mr Tidmarsh to Mr Wynn Owen with various questions regarding PRP.

BACKGROUND

2. You wrote to Mr Tidmarsh in the context of the '1000' letters exercise. He replied on 5 October praising the idea behind the PRP scheme, but expressing "distress and even anger" that their present profit sharing scheme would not be eligible for tax relief under the rules as they stood. Mr Judge wrote on 9 November with the standard 'deadweight' reply. It is not clear from Mr Judge's first paragraph whether or not you know Mr Tidmarsh personally.

3. Mr Tidmarsh was not satisfied with the 'deadweight' reply and rang your Private Office who referred him to Mr Wynn Owen. Mr Wynn Owen had a couple of lengthy, friendly conversations with Mr Tidmarsh who appeared to be enjoying grappling with the intricacies of PRP. Mr Wynn Owen also referred him to Mr Nisbet at the PRPO for more 'technical' advice. Mr Nisbet also had a long, friendly conversation with Mr Tidmarsh and explained in detail all the points raised by him. Apparently encouraged by these telephone exchanges, Mr Tidmarsh wrote to Mr Wynn Owen on 10 December with four further points. Mr Wynn Owen replied in full to Mr Tidmarsh on 3 February, apologising for the delay.

RECOMMENDATION

4. We recommend that you send a short reply to Mr Miller, explaining the contact we have had with Mr Tidmarsh and attaching a copy of Mr Wynn Owen's letter of 3 February. You might also take the opportunity to explain the delicate balancing act required in designing the proposals, and convey to Mr Miller the encouraging take-up figures for PRP.

5. I attach a draft reply.

Nigel Fray

NIGEL FRAY

DRAFT LETTER FROM PAYMASTER GENERAL TO:

H D Miller Esq MP
House of Commons
LONDON
SW1A OAA

Thank you for your letter to Nigel Lawson of 26 January.

Both the Treasury and the Profit Related Pay Office in Cumbernauld have been in contact with Mr Tidmarsh for some months. I attach, for your information the reply sent to Mr Tidmarsh's correspondence of 10 December, a copy of which you sent to me under cover of your letter.

I appreciate the disappointment that the terms of the PRP legislation do not enable some businesses, such as Mr Tidmarsh's, to operate the tax relief within their existing cash based profit sharing scheme, and recognise the reluctance of businesses to change the terms of schemes which have been carefully developed over a number of years. The points that Mr Tidmarsh has raised touch upon a number of the issues the Government had to consider carefully when developing the proposals for PRP. Designing the terms of the tax relief involved striking a delicate balance. On the one hand, we were anxious to provide maximum flexibility. On the other, as with any tax relief, certain basic safeguards had to be built in to satisfy ourselves that the terms of the relief were justified. It is perhaps inevitable that the balance struck would not please everyone. But the key point is that it is for individual businesses to decide whether to adjust their existing schemes to bring them within the scope of the relief.

Despite some businesses expressing reservations about certain rules governing the tax relief we have been encouraged by the interest to date shown in the PRP scheme. The Guidance Notes and application forms became available in September 1987. Over forty thousand copies have so far been distributed, together with an explanatory leaflet (a copy of which I enclose). Some 430 schemes had been registered by the end of 1987, covering 70,000 employees and this number continues to grow.

[P B]

2873/56c2

Sighe 2. file

(v)J22

Treasury Chambers
Parliament Street London SW1P 3AG

Telex 9413704

Telephone Direct Line 01-270
Switchboard 01-270 3000

A C B Tidmarsh Esq
Sales Director
Activty Sports & Toys
Tube Plastics Limited
Severn Road, Stourport-on-Severn
WORCESTERSHIRE DY13 9EX

Your reference

Our reference

Date
3 February 1988

Dear Mr Tidmarsh,

Thank you for your letter of 10 December 1987, following your telephone conversations with Bruce Nisbet and myself. I apologise for the delay in replying.

The Paymaster General's Private Secretary, Simon Judge, said in his letter to you of 9 November 1987 that, as with any tax relief, Ministers had to ensure that certain safeguards were built in to the scheme to satisfy themselves that the granting of the relief was justified. One of these basic safeguards was the requirement that audited profit figures be presented that match the employment unit applying for registration of a PRP scheme. If PRP is to be credible its basic element, the measure of profit used, must be reliable and present a true picture of the prosperity of the unit chosen. A new company will not be eligible to register a PRP scheme at the beginning or during its first year of existence as it would have no base year to determine the profit pool and would therefore be unable to present audited profit figure with its application. However, the fact that a new company is unable to register a scheme for the tax relief in its first year does not, of course, preclude it from setting up a profit-sharing scheme, initially without tax relief, which it can subsequently register for the following year.

I agree that that it is desirable for young companies to adopt profit-sharing schemes. In practice, a young company is likely to be a small unit and may therefore be in a better position than larger competitors to send clearer signals through the PRP element of the wage packet to its workforce about its performance and profitability. In any business, large or small, young or established, the initial size of the PRP pool is for management to decide. But if PRP is to produce any significant benefit in terms of greater pay flexibility and closer identity of interest between employees and the business they work for, it must represent a significant proportion of total pay. So Ministers decided that the pool must be of a minimum size if a scheme was to attract tax relief. Thus the rules required that the prospective PRP pool for the first year must be at least 5 per cent of the standard pay of the participating employees, if profits are unchanged. But the signals which we agree PRP should give are not dependent on the tax relief. So no employers, who for whatever reason cannot meet the statutory conditions, need on that account be dissuaded from introducing their own unregistered scheme.

I recognise that this might be represented as putting labour intensive companies at a disadvantage, as they may have a very high minimum percentage of profits going into the PRP pool. But that simply reflects the particular cost structure of those businesses. PRP could appear to be unacceptable to labour intensive firms if the basis of their assumption was that PRP schemes should be introduced as an "add-on" to basic wages. But this is not necessarily the case. To the extent that PRP is in lieu of an annual pay rise that would otherwise have taken place, the position will be no worse for these companies. I think you would agree that it is precisely these companies, where the pay bill is large compared to profits or to relatively tight profit margins, that are most in need of the flexibility that a PRP scheme can afford to management. The published PRP Guidance Notes (PRP2) also extend very generous "overrides" which enable employers considerably to limit the fluctuations of PRP payments to which they commit themselves.

I agree that all employees in a unit must be treated in similar terms. But the legislation allows great flexibility in setting up an employment unit. It is possible, therefore, to have one scheme for managers and an entirely separate scheme for hourly paid workers, although this would of course mean that each scheme would need its own profit and loss account. The PRP pool for each employment unit must enable all the employees who will receive PRP under it to do so on "similar terms". But such factors as levels of pay, length of service, attendance at work, industrial action, etc. may be taken into consideration when the rules for a PRP scheme are being established, though the scheme rules may not leave the basis of distribution for later decision. It must be clear from reading the terms of the scheme what share of the PRP pool each employee can expect to receive, subject only to a reasonable application of pre-determined objective factors. This is why great care must be taken by employers when designing a scheme for their individual employment unit.

It is for individual companies to reach their own decision whether to register a PRP scheme. Ministers are not advocating that PRP schemes necessarily include rules which withhold PRP from those who are prone to absenteeism, or take part in industrial action. But they believe it is important that employers are aware that such facilities can be built into their PRP schemes if they so wish. Incidentally, you may have noticed that certain people with a controlling interest may not be eligible to receive PRP payments (see Inland Revenue Guidance Notes para's 6.9 and 6.10 plus Appendix C).

I cannot accept your argument that there was inadequate consultation on the Government's proposals for PRP. The Chancellor announced in the 1986 Budget that the Government were considering the idea of income tax relief for PRP. In May of that year be submitted a paper on PRP to the National Economic Development Council (NEDC), which was followed by informal talks with employers and others both at individual company level and with representative bodies. These preliminary discussions produced a positive response and so, in July 1986 the Government published a Green Paper (Cmnd 9835), with appropriate publicity, which sought views on a wider basis (and which particularly mentioned the possibility of the 5% test). Interested parties were invited to submit their comments to HM Treasury within three months of the Green Paper's publication. In his 1987 Budget speech the Chancellor proposed that tax relief be made available to employees who received part of their pay as PRP, subject to certain limits, and the Finance (N°2) Act received Royal Assent in July 1987. In September 1987 Guidance Notes (PRP2) were issued by the Inland Revenue, plus an introductory leaflet by HM Treasury. The Inland Revenue issued additional notes on certain points just before Christmas.

Ministers have been encouraged by the interest to date shown in the PRP scheme. Since the Guidance Notes and application forms became available in September 1987, nearly 40,000 copies have been issued. By the end of 1987 430 schemes had been registered, covering over 70,000 employees and this continues to grow. The initial take-up of the employee share schemes relief, introduced in the 1978 Finance Act, was considerably slower than that experienced with PRP. But that scheme has, as you know, gone on to become a quiet success.

I apologize once again for the length of time taken to reply to your letter, but I hope you would agree that, while this letter does not accept all your points, it nonetheless tackles each in turn without slipping into the "bland reply" you feared you might receive. Having said that, I hope that you will understand that I cannot at this stage comment further on your suggestions for making the scheme work better, which I note as Budget representations.

Please do not hesitate to contact Bruce Nisbet or myself if you wish to discuss any further points.

Yours sincerely,

Philip Wynn Owen

P WYNN OWEN

cc Mr Monck
Mr Burgner
Mr P R C Gray
~~Mr Wynn Owen~~
PS/IR
Mr Farmer - IR

Treasury Chambers, Parliament Street, SWIP 3AG

A C B Tidmarsh Esq
Sales Director
Tube Plastics Ltd
Activity Sports and Toys
Severn Road
Stourport-on-Severn
WORCESTERSHIRE DY13 9EX

1 - ~~Nigel~~
2 - ~~Steve~~
3 - VUZZ

9 November 1987

R 16/11

Dear Mr Tidmarsh

PROFIT-RELATED PAY

Thank you for your letter of 5 October to the Paymaster General, who has specifically - not least for personal reasons - asked me to make clear that he has himself seen it.

I can appreciate your annoyance that the terms of the PRP legislation do not enable you to operate the tax relief within your existing cash based profit sharing scheme. I also recognise that you are naturally reluctant to change the terms of your scheme, which you have carefully developed for over ten years to reflect the needs of your particular business. Your reaction does, however, highlight a particular dilemma the Government has faced in developing its proposals in this area.

The first point to make is that, had the majority of businesses followed your example and developed cash based profit sharing schemes on their own initiative, there would have been no need for the Government to take action. But, sadly, this is not so. One of the main remaining obstacles to the continued strengthening of our economy is, in the Government's opinion, the lack of flexibility in pay systems in the majority of our businesses. The lack of identification by employees with the profitability of the firms in which they work holds back the development and strengthening of those businesses, and makes it more difficult for employers to feel confident about creating new jobs.

You have already recognised that PRP offers a way through, but many other employers have not. So Ministers reached the conclusion that, to stimulate the process of greater flexibility, it was appropriate to offer a tax incentive for PRP schemes. They concluded that if - but only if - it led to more widespread adoption of such arrangements, using taxpayers' money in this way would be justified by the resulting economic benefits.

Designing the terms of the tax relief has, however, involved striking a delicate balance. On the one hand, Ministers were anxious to provide maximum flexibility. On the other, as with any tax relief, certain basic safeguards had to be built in and Ministers had to be satisfied that the terms of the relief were justified. It was important to keep the scheme simple enough to facilitate the primary objective of attracting employers to PRP for the first time. It would not have been compatible with that aim to provide rules tailored to allow for all the widely differing features of existing schemes.

It is perhaps inevitable that the balance struck will not please everyone. At the same time, it is of course open to businesses such as yours to consider whether to adjust the terms of your existing schemes to bring them within the scope of the relief. I would be surprised if everyone reached the same view. In some cases employers may well decide the necessary changes would be worthwhile. In others the decision may be that they would not.

But the key point is that it is for individual businesses to reach their own decision. The Government is <u>not</u> seeking to lay down the terms on which businesses must apply profit sharing, or any other aspect of their management arrangements. It <u>has</u> provided a system for tax relief with substantial flexibility, but also, rightly, some basic terms and conditions. It must be for individual employers to decide whether PRP is right for their businesses, and if it is whether it should be designed to fall within the terms of the tax relief.

Yours sincerely

S P Judge.

S P JUDGE
Private Secretary

Activity Sports & Toys

Tube Plastics Limited
Severn Road . Stourport-on-Severn
Worcestershire DY13 9EX

Telephone: 02993 4516
Telex: 336559 TPTOYS

Our ACBT/PJL

PAYMASTER GENERAL
12 OCT 1987
Mr P Gray
PS/Ch/Ex
Mr Monck
Mr Burgner
Mr Scholar
Mr Wynn Owen 27/
Mr Tyrie
PS/IR
PMG 5

5th. October, 1987

Mr. Peter Brooke,
Paymaster General,
H.M. Treasury,
Whitehall,
London.

Dear Mr. Brooke,

Re: Profit Related Pay

No doubt this is just one of many letters you will receive on this subject. When the Chancellor announced that he wanted to encourage businesses to adopt profit sharing and to that end he was going to give some tax relief, all our staff were delighted for two reasons:

1. As we had a profit sharing scheme we would all save some tax, and

2. Having experienced the benefits so succinctly explained in your leaflet dated September 1987 for 10 years we have been great advocates of this method of pay and have spent quite some time extolling its virtues to other local companies.

We have tinkered a bit with our scheme over the years and feel we have an excellent one which everybody understands. Our turnover has risen five-fold, our exports at least ten-fold, our profits over ten-fold and our labour force by 50% since its introduction - we are toy manufacturers, not exactly a growth industry. Some of our senior staff now earn more by way of profit share than their basic salary, and all staff members could get more elsewhere in basic pay but stay with us because of the profit sharing scheme - our staff turnover is virtually zero. So you can see that, in our case, you are preaching to the converted and, we like to think, to people with some knowledge of the advantages of different aspects of profit sharing schemes.

/continued..........

Directors: J. Martyn-Smith A. C. B. Tidmarsh, F.C.A. Mrs. C. E. A. Boughton-Thomas Mrs. M. L. Tiley
Registered Number 624260 . Registered Office: Severn Road, Stourport-on-Severn, Worcestershire
Bankers: Midland Bank PLC, Stourport-on-Severn, A/c No. 30814504

53/2/LPD/3751/014

FROM: G R WESTHEAD
DATE: 5 February 1988

ECONOMIC SECRETARY TO THE TREASURY

PS/CHANCELLOR 2

Tony D pl.

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mrs Burnhams
Miss Evans

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

WINE AND SPIRIT ASSOCIATION (WSA) : 1988 BUDGET REPRESENTATIONS

The Economic Secretary met the WSA yesterday afternoon to listen to their Budget representations.

Wine

2. WSA Chairman Mr Gent said the WSA were concerned that excise duty on light wine (ie not exceeding 15% alcohol) should not be increased and thought it was in the interest of both the Government and the wine industry to maintain the status quo. On fortified wines, Mr Gent said the recent decline in demand showed that the present tax burden was already too heavy. If the burden was increased, the WSA expected the present level of revenues to be under threat. The WSA proposed that excise duty on fortified wine should be reduced by 10% in the Budget.

3. The WSA said that there had been a substantial fall in real prices of wine in recent years. This was both advantageous to the customer and to the Government as it helped reduce inflation. But price falls were harsh on wine traders. The value of wine sold to the public was down by about 2% on a year ago. And the EC agreement to standardise the size of bottles at 75 cl would mean most bottles containing an extra 5 cl - another squeeze on

traders' margins which were already very tight.

Duty Deferment

4. Mr Gent said the WSA were asking for the duty deferment period to be increased from 30 days to 60 days. He thought that if the Exchequer could not agree to the measure this year when revenues were buoyant the prospect of it being adopted in the future was dim. Traders would find it hard to accept another refusal this year.

5. Mr Jefferson Smith, commenting on Mr Gent's suggestion of a phased increase to 60 days over 2 years, said he saw practical problems. Even if duty was deferred by as little as a week, Government Accounting mechanisms would effectively mean that it would slip into the next month for revenue purposes, so in effect a whole month's duty would be lost.

Spirits

6. Mr Gent said that in recent times duty had decreased in real terms, but so had revenue. The WSA saw a need for a further 10% reduction in duty.

7. A representative of the Wine and Spirits group of the British Retailers Association said that retailers were aware of the elasticity of demand. Last Christmas they had sold a lot of product at the same price as the previous Christmas, despite increased operating costs. But volume was very susceptible to price and volume growth had been very sluggish over the past few years. In 1987 beer was up by 2%, light wines by 4%, spirits were unchanged. There was no indication of rapid growth despite a steady price. The British Retailers Association concluded from this that an increase in duties would reduce volume significantly with a danger of job losses in retailing and distilleries.

8. A message was read out from Mr M Gordon, of the Union of Shop, Distributive and Allied Workers, who was unable to be present at the meeting. Mr Gordon pointed to very tight profit margins. There

had been a number of closures in the last year. Consumption of wines and spirits was declining. Mr Gordon hoped that the Chancellor would agree that duty on fortified wines should be reduced but also asked for a reduction in real terms in duty on spirits.

9. The Economic Secretary asked about the general state of the trade. Mr Gent said that he was not aware of any major company who were able to achieve profit-contribution targets at present. There was a need for surplus cash for investment, training and new product development.

10. The Economic Secretary thanked the Wine and Spirit Association for coming to see him and said that he would report the points they had made to the Chancellor.

Guy Westhead.

G R WESTHEAD

Assistant Private Secretary

53/2/LPD/3751/016

mp. PS/Chancellor

FROM: G R WESTHEAD
DATE: 8 February 1988

ECONOMIC SECRETARY TO THE TREASURY

NOTE OF A MEETING, HELD IN ROOM 51/2, HM TREASURY, THURSDAY 4 FEBRUARY 1988

Those Present:

Economic Secretary	-	HM Treasury
Mr Saunders	-	"
Mr McGuigan	-	Customs and Excise
Mr Boardman	-	"

<u>British Medical Association</u>

Dr J Marks	-	Chairman
Dr J Havard	-	Secretary
Dr J Dawson	-	Head of Professional and Scientific Division
Mrs P Taylor	-	Head of Public Affairs
Mr J Ford	-	Head of Economic Research Unit
Mrs J Townsend	-	British Research Unit, Economist

BRITISH MEDICAL ASSOCIATION: 1988 BUDGET REPRESENTATIONS

Dr Marks said that the UK had one of the highest rates of lung cancer and heart disease in the world. Smoking was a significant contributory factor. Through health education and the relatively high price of cigarettes smoking had fallen in recent years. But the problem now was that more young people were starting to smoke. If this generation could be persuaded not to smoke a real breakthrough in health could be made. Unfortunately, the smoking population appeared to have increased for the first time in many years in 1987. The BMA were convinced that a <u>real</u> increase in tobacco duty was needed to reverse this trend - they asked for 30p or 21 per cent. Such an increase would raise £750m a year in revenue and there would be considerable savings to the NHS (£34m) and about 9,000 lives saved a year.

Mr Boardman said that Customs doubted that smoking had actually increased in 1987 - trade sources suggested that the number of cigarettes smoked had actually fallen by 1½ per cent compared with 1986. It was true that real consumer spending on cigarettes had marginally increased in the third quarter of 1987, but this was due to some trading up from cheaper imported cigarettes to fuller-priced UK-made products, rather than an increase in actual quantities. The BMA welcomed this information, but they remained concerned at the incidence of smoking among young people. 30 per cent of 16 year old girls were now regular smokers, close to the proportion among female adults. While acknowledging this, Mr Boardman said that according to the OPCS survey quoted by the BMA there had at least been a fall between 1984 and 1986 in smoking - among secondary school children - from 12 to 7% in boys and from 13 to 12% for girls.

Price elasticity

2. The BMA said that they had done a lot of research on the relationship between price and demand. The price elasticity was about minus 0.5. In 1987 the real price of cigarettes had fallen, largely due to a standstill in tobacco taxation, and this had resulted in an increase in real spending on smoking (if not an increase in smoking itself). It was evident that there was a close relationship between price and demand in both directions, and children were particularly sensitive to price. Increased taxation would reduce demand.

Imported cigarettes

3. The BMA said they had no evidence of smokers opting for imported cigarettes when prices were increased. The evidence of the retail trade was that imported cigarettes still represented a very small part of the market. But some suppliers were offering very low trade prices to large supermarkets provided that supermarkets cut their own profit margins (Small shops were excluded from this deal).

Structure of tobacco taxation

4. The Economic Secretary asked whether the BMA had any views on this - for example the weighting of tax between cigarettes,

pipe tobacco etc. Dr Marks said cigarettes were clearly the most dangerous product. But they did have strong views that smokeless tobacco (for example Skoal Bandits) should be dealt with punitively. Some tobacco companies were marketing this avidly. Smokeless tobacco introduced a new mode of addiction to nicotine as well as to cigarettes themselves. Using the product could lead to gum disease and cancer of the mouth. They wanted it taxed in such a way as to make it an unattractive product, before it found a real niche in the market. It was currently being aimed at the young as a new "sexy" product. The Economic Secretary said that he believed his colleagues in the DHSS were looking at the health and marketing aspects of smokeless tobacco. They were certainly aware of the BMA's views.

5. The BMA said the argument that smoking was confined to a hardcore which could not be further eroded was untrue. They wanted a strong <u>economic</u> reason for people to quit smoking - ie price. In the meantime they would take their own education campaigns forward.

6. The Economic Secretary said that price was not the only influence on the size of the smoking population. The BMA agreed. Advertising was also important as was health education. The BMA were aware of their own responsibilities. They were pleased at the attitude of the IBA and BBC to their moves to cut down on advertising in particular at targetted groups (eg young girls) and they were also looking at magazine advertising. But cigarettes were still too easily accessible and were associated with success in sport.

<u>Employment in the tobacco industry</u>

7. The BMA said it was unfair that tobacco companies should blame them for cuts in employment which were chiefly due to mechanisation. This was borne out by the fact that productivity had increased by 2.6% between 1973 and 1981, whereas employment had fallen by 18.4 per cent. They also pointed out that the tobacco industry had had plenty of time to adapt to the inevitable reduction in employment. In any case company profitability was higher than

ever before.

Smoking by social class

8. The BMA said that smoking was increasingly becoming confined to the lower socioeconomic groups; The middle classes had responded to health education whereas the working classes had not. But the lower income groups were also most sensitive to price change. Between 1965 and 1980 the real price of cigarettes had fallen by 30% and the effects of health education had been lost. Four times as many people were now likely to die of lung cancer in the lower socioeconomic groups than the higher; in 1947 the ratio had been 1:1. In health terms, cigarette - related illness was now regressive with avengeance.

Tax harmonisation

9. The BMA said they did not expect the Economic Secretary to comment substantively on this. But they hoped that any moves to harmonise would be upwards rather than downwards.

The Economic Secretary said that the Government had difficulties with many of the proposals put forward in the Lord Cockfield package. The issue had not yet been discussed by ECOFIN. Obviously if the UK harmonised with average EC taxation we would have to bring our rates down. But we had indicated that we would take health as well as fiscal reasons into account.

Duty - Free allowances

10. The BMA called for abolition. The Economic Secretary said that it was possible that duty free allowances might wither away through liberalisation - ie cross boarder trade through the removal of controls at frontiers - rather than through harmonisation.

Guy Westhead.

GUY WESTHEAD
Assistant Private Secretary

DISTRIBUTION

cc PS/Chancellor
PS/Fiancial Secretary
PS/Paymaster General
PS/Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Michie
Miss Evans
Ms Burnhams
Mr McGuigan - C&E
Mr Boardman - C&E
PS/C&E
PS/IR

mjd 2/104Jn

CONFIDENTIAL

FROM: J M G TAYLOR

DATE: 8 February 1988

MRS BURNHAMS

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Scholar
Mr Culpin
Miss Sinclair
Miss Evans

PS/IR
Mr Marshall IR
PS/C&E
Mr R Allen C&E

1988 BUDGET REPRESENTATIONS

The Chancellor was grateful for your minute and enclosures of 3 February.

2. He would be grateful for a list of all those organisations that have recommended (a) "schedule D tax to be on a current year basis" (b) "remove UEL on employees NICs". He would also be grateful for confirmation that restricting approval of executive share option schemes to companies with all employees schemes is now a Budget starter.

3. He has asked that the matrix should be confined to significant organisations only.

J M G TAYLOR

RJ5.73

CHANCELLOR OF THE EXCHEQUER

FROM: A A DIGHT
DATE: 9 February 1988

MR G R WESTHEAD

WINE AND SPIRIT ASSOCIATION (WSA): 1988 BUDGET REPRESENTATIONS

The Chancellor has seen and was grateful for your minute of 5 February.

A A Dight

A A DIGHT

mjd 5/80J

UNCLASSIFIED

12/2

FROM: MRS JULIE THORPE
DATE: 9 February 1988

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
Mr Burgner
Mr Culpin
Miss Sinclair
Mrs Burnhams
Mr Cropper

PS/IR

BUDGET REP: ASSOCIATION OF BRITISH CHAMBERS OF COMMERCE

As you know the Chancellor has agreed to see a deputation from the Association of British Chambers of Commerce to discuss their Budget representations at 11.15am on Friday 12 February here in the Treasury.

2. The Chancellor would like the Financial Secretary, Mr Burgner, Miss Sinclair and Mr Cropper to attend the meeting. If anyone is unable to attend please can they let me know.

... 3. I attach a letter we have received from Mr Burman setting out the issues the ABCC wish to discuss. I understand Mrs Burnhams is co-ordinating briefing with the Inland Revenue.

Julie Thorpe

MRS JULIE THORPE
Diary Secretary

442/041/AC

CONFIDENTIAL

FROM: MRS T C BURNHAMS

DATE: 11 February 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Scholar
Mr Culpin
Miss Sinclair
Miss Evans
PS/IR
Mr Marshall IR
Mr Elliott
PS/C&E
Mr R Allen C&E

Thanks!

1988 BUDGET REPRESENTATIONS

Your minute of 8 February asked for the following information -

i. Which organisations have recommended Schedule D tax on a current year basis?

I am aware of only two organisations which make this specific recommendation - the Society of Conservative Accountants and the Bristol Junior Chamber. (This is, of course, a wider and quite separate issue to that dealt with in starter 213 in-year assessments on Schedule D income).

ii. Which organisations support removal of the UEL on employee's NICs?

Although many organisations have urged the reintroduction of the UEL for employer's NICs only the Association of British Chambers of Commerce have made this particular suggestion.

2. You also asked me to confirm whether the proposal to restrict approval of executive share option schemes to companies with all employees' schemes is now a Budget starter. This proposal is now starter no 122 and a reference sheet will be circulated in the next few days with the revised Starter List.

Teresa Burnhams

MRS T C BURNHAMS

BF 15/2

Inland Revenue

Policy Division
Somerset House

FROM: N WILLIAMS
DATE: 12 February 1988

PS/FINANCIAL SECRETARY

BRITISH VENTURE CAPITAL ASSOCIATION : BUDGET REPRESENTATIONS : APPROVED SHARE OPTION SCHEMES

1. Following his meeting with the BVCA on 6 January the Financial Secretary asked for a note on their suggestion that the present limit on the amount of options that can be granted to employees under discretionary FA 1984 approved share option schemes should be increased, but that any such increase should be limited to unquoted companies.

Background

2. The 1984 legislation allows companies to grant options to employees up to a limit of 4 times earnings or, if greater, £100,000. ('Earnings' excludes 'benefits-in-kind' and other payments made without deduction of tax under PAYE).

3. The BVCA's original suggestion was that this limit should be increased to 6 times earnings, although with the £100,000 limit being maintained. As subsequently modified, this increase would be restricted to unquoted companies.

---

c PS/Chancellor
Mr Culpin
Mrs Lomax
Mr Neilson
Mr Flanagan
Mr Cropper
Mr Tyrie

Mr Isaac
Mr Lewis
Mr Beighton
Mr German
Mr Farmer
Mrs Eaton
Mrs Majer
Mr Williams

4. The BVCA's original proposal was supported by Lord Young in his Budget Representations to the Chancellor (letter of 7 December). A similar proposal was put forward by the 'City' Associations (of which the BVCA is a member), whilst the Institute of Directors in their representations again request abolition of the limit.

General

5. When the scheme was established in 1984, Ministers decided that a limit of some kind was essential for presentational reasons, but that the limit should, at the same time, be generous enough not to frustrate the aims of the scheme (these included enabling smaller companies to attract key staff with options, where these could not lure them with large starting salaries - hence the £100,000 limit as an alternative to the 4 times salary.

6. The possible abolition of the limit on the size of options was fully examined and rejected in January last year following representations from the CBI and the IOD. Lively criticism of the 1984 legislation persisted. Adverse Press comment about large potential gains has somewhat abated with the recent Stock Market falls in shares prices, but there remains considerable concern about the 'elitist' character of these schemes, which cites in particular the continuing fast growth in the number of approvals of these schemes by comparison with all-employee schemes. The Wider Share Ownership Council, for example, have continued to press for linkage of the discretionary schemes with the operation of all-employee share schemes. (The Chancellor and the Financial Secretary have both asked for a note on this subject and a separate submission is coming forward today.)

7. The BVCA's modified proposal would benefit only those with annual earnings in excess of £25,000 by permitting them to be granted options of more than £100,000. (Anyone with earnings below £25,000 already has the opportunity of being

granted options of £100,000, ie more than 4 times earnings, and so arguably the smaller company would not be assisted by the proposal. It is assumed, of course, that the BVCA are indeed interested in the smaller company - though this is by no means synonymous with the unquoted company for whom they make their proposal.)

8. To allow an increase of 50% in the amount of options that can be granted and to target that increase at those earning over £25,000 would be a controversial step and would undoubtedly lead to heightening of the sort of criticism outlined above.

9. Without similar action in respect of the all-employee schemes there would also be charges that the relative attractiveness of these schemes was being diminished. There is no more evidence, however, to suggest that the limits in these schemes are in practice any more restrictive than those in the 1984 scheme.

10. The average size of option granted under the FA 1984 schemes in 1985/86 was £17,500. The figure for 1986/87 was £22,000, which although slightly higher, is well within the existing limits. An analysis of a small sample of 1985/86 returns indicated that only 5% of employee beneficiaries had been granted options exceeding three times earnings, supporting the view that few options are granted at the maximum permitted levels.

11. There has been no sign that the take-up of the 1984 schemes is diminishing. The last few months have in fact seen an increase in the number of schemes being submitted for approval, with over 100 applications a month currently being received. The total number of schemes approved now stands at over 2,700.

12. On this basis, therefore, there would seem to be no grounds for a general increase in the current earnings multiple limit.

Increase in the limit only for unquoted companies?

13. When the scheme was first established, the suggestion of limiting it to small companies was examined. Representations had been made to the effect that small companies in particular were unable to pay the large salaries needed to attract and retain able managers. An extension of the new relief to all companies would, it was argued, merely succeed in raising managers' remuneration generally. Ministers concluded, however, that it would be wrong not to help other companies to enhance the motivation of their key staff and that the use of share options had attractions for all sizes of company.

14. Apart from the practical considerations discussed in paragraphs 17 and 18 below, adoption of the BVCA's suggestion would in effect involve discriminating against quoted companies. Unquoted companies are already somewhat less restricted in this area. The Investment Protection Committee limits take a stricter line than that allowed by the 1984 legislation, in allowing options, (whether under approved or unapproved schemes), to be granted up to no more in total than 4 times an employee's annual emoluments and in applying this limit to any period of 10 years, regardless of the exercise or cancellation or abandonment of options in the meantime. IPC rules affect, of course, only quoted companies with large institutional shareholdings.

15. By contrast, there is at present no such constraint on unquoted companies from setting up whatever schemes they want to whether as approved schemes operated up to the statutory limits or as unapproved schemes giving even larger benefits (albeit subject to the normal tax rules). Since

companies affected by the IPC rules are unlikely to be able to do this, to give further tax relief to the unquoted sector in addition to this greater freedom could provoke criticism from the quoted companies operating employee share schemes (and strengthen demands for an increase in the limits on the size of options generally).

How would a limitation to unquoted companies work?

16. Distinguishing between the limits on individual share options according to whether or not the company in question was quoted could encounter difficulties. There are two possible approaches.

17. One approach would be to confine the increased limit to employees granted options over shares that were unquoted (at the time the options were granted. It would be for decision whether, if the shares became quoted before the option was exercised, the subsequent tax relieved exercise should be confined to the lower limit or not. To attempt such restriction would raise some difficult practical problems).

18. But this approach would allow the increased limit not only to employees of companies that were in no sense quoted - who may be the BVCA's intended beneficiaries - but also to employees of non-quoted subsidiaries of quoted companies. (Shares in these unquoted subsidiaries may be the subject of options granted under approved FA 1984 schemes.) It might then be a simple matter for the quoted company to enable any of its employees to have access to options up to the increased limit, whether in practice they worked for the quoted parent or the unquoted subsidiary. Indeed a group of companies might well anticipate employees' resentment if the size of the options which individuals could be granted depended on the part of the group they chanced to work in.

19. The second approach, which probably matches better the BVCA's thinking, would be to confine the increased limit to

approved schemes operated by unquoted, non-subsidiary companies. As indicated above, of course, these are not necessarily small companies, and such a proposal would encourage demands for extension to schemes operated by unquoted subsidiaries. The further point made above - about the implications of a quotation being obtained for shares during the currency of options - also assumes particular importance. It may be unusual for an unquoted subsidiary to secure a quotation, but other unquoted companies may well do so. Would it be acceptable for additional options to be granted to employees up to the 'small company limit' during the run-up to a flotation - bearing in mind the context of discretionary rather than all-employee schemes?

20. Of these two approaches we consider the second preferable; and that once options up to the higher limit had been granted on the assumption that the tax relief would apply on their exercise, the fact of a quotation being subsequently obtained for the underlying shares should not render that assumption in any way invalid.

Cost

21. The cost of abolishing the limit would be around £5 million per annum. (This estimate is based on the assumption that few people are being granted options at the maximum level and that abolition would lead to no significant behavioural changes.) The cost of the BVCA proposal would be something less than that figure. Cost is not, however, one of the more significant arguments against their proposal.

Conclusion

22. In general terms there is no great pressure for any change in the limits and no real evidence to suggest that the present limits are preventing the scheme from achieving its aims. The limits are generous ones and the continuing excellent take-up figures reflect this.

23. Any raising of the limit would be controversial, even if it were to be limited in the way the BVCA appear to have in mind. Such an increase would benefit only those with earnings in excess of £25,000 a year and would heighten criticism of the scheme both on the grounds of being elitist and of receiving preferential treatment to the all-employee schemes. Limiting the increase to the unquoted sector would be badly received by the quoted sector, and would increase the additional 'IPC-related' flexibility already enjoyed by the unquoted sector. The method we would prefer for adopting the BVCA proposal (paragraph 20 above) is not free of difficulty.

24. The balance of argument would therefore seem to us to be against making any change in the limits, either on a general basis or in the more selective way suggested by the BVCA.

N. Williams

N WILLIAMS

Inland Revenue

Policy Division
Somerset House

~~papers~~ pse

pmp

FROM: N WILLIAMS
DATE: 15 February 1988

PS/FINANCIAL SECRETARY

BRITISH VENTURE CAPITAL ASSOCIATION : BUDGET REPRESENTATIONS : APPROVED SHARE OPTION SCHEMES

1. The aim of paragraphs 7 and 8 of my note of 12 February was to identify the principal beneficiaries of the BVCA's modified proposal. As currently drafted, however, this may not be clear.

2. Under the BVCA's proposed new limit of six times earnings, or, if greater, £100,000, anyone with earnings in excess of £16,666 would benefit to some degree but the level of the potential benefit would increase gradually until, at a level of £25,000, and above, an increase of 50% in the amount of options that can be granted would be allowed.

3. Thus, the proposal would be of no benefit to those with earnings below £16,666, of some benefit to those with earnings between £16,666 and £25,000 and of greatest benefit to those with earnings in excess of £25,000 all of whom would be able to receive options to a value 50% greater than at present.

---

c PS/Chancellor
Mr Culpin
Mrs Lomax
Mr Neilson
Mr Flanagan
Mr Cropper
Mr Tyrie

Mr Isaac
Mr Lewis
Mr Beighton
Mr German
Mr Farmer
Mrs Eaton
Mrs Majer
Mr Williams
PS/IR

4. Similarly, paragraph 23 of my earlier note should refer to an increase such as the BVCA propose principally benefiting only those with earnings in excess of £25,000 a year.

N. Williams

N WILLIAMS

442/045/AC

FROM: MRS T C BURNHAMS

DATE: 15 February 1988

1. MISS SINCLAIR

2. PS/ECONOMIC SECRETARY

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Mr Michie
PS/C & E
Mr Romanski C & E

BUDGET REPRESENTATIONS

The Secretary of State for Education and Science wrote to the Chancellor on 1 February about VAT on gifts of equipment to educational institutions. The Economic Secretary has been asked to reply.

2. Mr Baker supports the proposal that Lord Young made in his Budget representations to extend more favourable VAT treatment. I understand that this proposal was not discussed at the Chancellor's meeting with Lord Young on 29 January.

3. I attach a standard reply which the Economic Secretary may like to send.

Teresa Burnhams

MRS T C BURNHAMS

442/046/AC

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Kenneth Baker MP
Secretary of State for Education and Science
Elizabeth House
York Road
LONDON
SE1 7PH

February 1988

VAT ON GIFTS OF EQUIPMENT TO EDUCATIONAL INSTITUTIONS

Thank you for your letter of 1 February. Nigel has asked me to reply on his behalf.

The points you made have been noted and they will be carefully considered. I am sure you will not expect me to comment further at this stage, but it is helpful to have comments and suggestions from colleagues.

PETER LILLEY

42/2.BTW.4372/02

FINANCIAL SECRETARY TO THE TREASURY

~~PAMP~~

→ Taxation?

FROM: MISS S J FEEST
DATE: 16 February 1988

N WILLIAMS IR

cc PS/Chancellor
Mr Culpin
Mrs Lomax
Mr Neilson
Mr Flanagan
Mr Cropper
Mr Tyrie
PS/IR

BRITISH VENTURE CAPITAL ASSOCIATION: BUDGET REPRESENTATIONS: APPROVED SHARE OPTION SCHEMES

The Financial Secretary was grateful for your minute of 12 February 1988 and has noted your comments therein.

Susan Feest

SUSAN FEEST
(Assistant Private Secretary)

3978/42

CHANCELLOR OF THE EXCHEQUER

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

24 February 1988

Cllr Mrs Wendy Mitchell OBE JP
Chairman
Conservative Women's National Committee
32 Smith Square
LONDON SW1P 3HH

Dear Wendy

Many thanks for sending me the list of Budget proposals from the CWNC. I have taken careful note of all your suggestions.

Yours ever
Nigel

NIGEL LAWSON

CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Chancellor.

I find that you did not formally acknowledge the CWNC budget submissions — although they knew verbally from me that you had seen and registered them.

PJC

RM2.86

ANNEX A

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

24 February 1988

Rt. Hon. Timothy Raison MP
House of Commons
LONDON
SW1

Thank you for your letter of 1 February enclosing correspondence from Reverend H M Mayor of St Mary's Centre, St Mary's Square, Aylesbury, Bucks, HP20 1JJ.

I can assure you that Reverend Mayor's representations on tax matters will be noted in the run-up to the Budget. I hope you will understand that I cannot comment more substantively on Budget issues at this stage.

However, Reverend Mayor also comments about the overall level of spending on the National Health Service. This is, of course, not a matter for the Budget: it is settled every Autumn in the annual public expenditure round. So perhaps I can make some general comments on the points Reverend Mayor raises.

Since we first took office, the money spent on the NHS has risen by 30 per cent over and above inflation. We now have 80,000 more front-line staff - doctors, dentists, nurses, and midwives - than in 1978. And we are treating record numbers of patients - in England in 1986 we treated 1 million more inpatient cases than in 1978, a 19 per cent improvement, and 490,000 more day cases (up 87 per cent). We have demonstrated that we shall continue to make health a priority. Our spending plans for the coming year show the largest increases ever: we are planning to provide at least £1,100 million more than we are spending this year. And there are to be similar increases in the following years. So stories that the Government is running down the health service simply do not square with the facts.

That said, there undoubtedly are problems with the health service. That is why, as the Prime Minister has said, Ministers are undertaking a fundamental review of health provision. I can assure you that we will make known our conclusions as soon as we can.

In the meantime, however, it is important to recognise that there is no conflict between reductions in the tax burden and

CHANCELLOR OF THE EXCHEQUER

Ch/

Customs have phoned through a correction to one of the figures in your SWA briefing. Annex A, 1st page, penultimate line, sentence should read:

"Spirit duty receipts for current financial year to November are up 3 per cent on same period last year."

MPW

14/12

better public services. Quite the reverse. This Government has been able to increase the resources available to the NHS precisely because its economic policies have created conditions in which industry and business can prosper. Central to this strategy has been a steady reduction in the burden of taxation on individuals and companies, to encourage them to work hard, export, and innovate. That is the only way to create the resources which ensure that we can all enjoy better public services in the years ahead.

NIGEL LAWSON

442/059/AC

ANNEX B

DRAFT FOR OFFICIAL REPLY

Thank you for your representations about increased spending on the National Health Service.

Public spending including spending on the National Health Service is not a matter for the Budget but is settled every Autumn in the annual public expenditure round.

Health continues to be a priority of the Government and the spending plans announced in the Autumn Statement show the largest increases ever. At least £1,100 million more is to be provided next year and there are to be similar increases in the following years. In addition, Ministers are undertaking a fundamental review of health provisions.

It would be inappropriate to offer further comments at this stage but the conclusions of the review will be made known as soon as possible.

... Make Budget Day - NHS Day

Dear Mr. Lawson,

I wish to register my protest at the government's failure to act upon the present cash crisis facing the National Health Service. On Budget Day, I urge you to respond to the appeals of nurses and the rest of the health care team by making additional public funds available to restore proper levels of service and care in our local hospitals.

Yours sincerely,

A Hays

FROM

Name MRS. A. HAYS

Address 18. FALKIRK

HIGHFIELDS

KILLINGWORTH

NEWCASTLE UPON TYNE

NE12 0QA

NEWCASTLE UPON TYNE
2 15PM
24 FEB
1988
A

Rt. Hon. Nigel Lawson, M.P.
Chancellor of the Exchequer
11 Downing Street
LONDON
SW1

Have a heart ...

442/058/AC

We are being inundated with printed cards.

pmp

FROM: MRS T C BURNHAMS

DATE: 29 February 1988

1. MR CULPIN
2. CHANCELLOR

(1) Do you want us to reply at all?
(2) If so, are you & the Chief Secretary content with the reply at Annex B?

RC 29/2

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Saunders
Mr Anson
Miss Sinclair
Miss Evans
Mr Davies MCU

BUDGET REPRESENTATIONS

I attach an example of one of the postcards which are being sent to the Chancellor in increasing numbers. Their slogan is "make Budget Day - NHS Day" and the cards are part of a campaign by NUPE and supported by the Labour Party for increased spending on the NHS. In the last week we have received about 850 cards, and a further 500 have come in today. I attach a press cutting about the campaign.

2. There would seem to be the following options for dealing with this correspondence:

i. Not to reply.
ii A standard Budget acknowledgement.
iii To use the substantive reply the Chancellor already agreed for Budget health representations (attached at Annex A).
iv A shortened form of iii (see attach Annex B)

3. These campaign cards would not seem to warrant a full reply particularly as they do not specifically raise the question of a conflict between tax cuts and better public services; and this response would have significant resource implications. The standard Budget acknowledgement would also seem to be rather inappropriate in view of the nature of the campaign. If a response is regarded as necessary, I would recommend a short reply on the lines of the draft at Annex B.

4. I would be grateful to know if the Chancellor is content with a short standard reply rather than a response based on the letter he previously approved.

Teresa Burnhams

MRS T C BURNHAMS

Tuesday, February 23, 1988

THE TIMES

Call for more spending detail

26

By Rodney Lord, Economics Editor

The Treasury and Civil Service Select Committee has recommended scrapping the present Public Expenditure White Paper and replacing it with an expanded Autumn Statement and individual departmental reports containing more detail on the Government's spending plans.

The MPs want Parliamentary scrutiny of public spending to be less concerned with a *post mortem* of the previous year's spending and more involved with influencing expenditure decisions for the future.

In a report released before tomorrow's debate on this year's White Paper, the committee suggests replacing the White Paper debate with additional debates on departmental reports and on the estimates during the spring and early summer at a time when the Government is drawing up plans for the new spending survey.

The advantages of this change would include:

- More information would be available earlier at the end of the public spending survey in the autumn.
- Parliament could more easily consider the balance of spending between different programmes.
- Annual departmental reports would be more informative than the present departmental chapters of volume 2 of the White Paper and would constitute a significant improvement in accountability.
- The detailed study by select committees of the proposed annual reports would provide a useful input to the forthcoming annual expenditure survey.

The Committee still envisages a Treasury publication in January or February covering any figures not available at the time of the Autumn Statement together with further analysis not contained in Part 1 of the White Paper. The Departmental reports should be published in March or April.

One of the main reasons for the change would be to increase the amount of information made available on the output of the public sector. The committee calls for further work to be done on devizing quantifiable indicators which can be monitored on a consistent basis from year to year.

The committee also wants to see more information on the volume of public spending — in other words cash-adjusted for price increases relevant to each programme. While the report recognizes the dangers of using this for planning spending, it believes this would provide useful additional information about past spending.

The report criticizes the Government's target of reducing spending as a proportion of national income. "While an expenditure target expressed in terms of GDP may be a perfectly reasonable medium-term policy we consider that in the short-term the criterion is so vague as to be almost useless in determining expenditure in any one year." It points out that next year's total could be increased by £1 billion to £2 billion without threatening this criterion.

Among other changes the committee would like to see are a breakdown of spending by regions in England as well in Scotland, Wales and Northern Ireland; an explanation of changes in departmental plans from one White Paper to the next and more information on changes in capital spending.

PAGE 2 DAILY MIRROR

Tories in NHS storm

2

WORRIED Tories yesterday piled pressure on Premier Margaret Thatcher to inject more cash into the crisis-hit health service.

A powerful Tory-dominated committee hotted things up by slamming her attitude over nurses pay.

To the embarrassment of Ministers, it urged the Government to fully fund NHS pay rises.

The MPs say the move — repeatedly demanded by Labour leader Neil Kinnock — would end the "damaging uncertainty" which stops health bosses planning their budgets.

Meanwhile, people will be invited to send 500,000 "have a heart" postcards to Chancellor Nigel Lawson before Budget Day.

The cards, printed by the health care union NUPE, will urge him to inject more cash into the ailing NHS.

● Take a wage cut... Page 19

THE STANDARD

MPs want nurses' pay pledge

11/2

by John Williams

THE Government today faced a politically embarrassing demand from a Tory-dominated committee of MPs to end the "damaging uncertainty" over whether it will fund the forthcoming nurses' pay award.

At a time of high public controversy over health spending, the House of Commons Treasury Select Committee issued a report criticising the Government for refusing to give health authorities a "firm basis" on which to plan future spending.

"As a result cautious health authorities are already announcing savings, for example, from ward closures," says the report.

The Government should make an announcement that it will fund whatever pay settlement it agrees to and not expect the health authorities to help meet the cost themselves, the committee says.

The report says this would not be a "blank cheque", because the Government could reserve the right not to award the full amount

5/7

441/024/AC

FROM: MRS T C BURNHAMS

DATE: 4 March 1988

1. MISS SINCLAIR CD 7/3

2. CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Scholar
Mr Culpin
Miss Evans

PS/IR
Mr Marshall - IR
PS/C&E
Mr R Allen - C&E

1988 BUDGET REPRESENTATIONS

I attach the final summary of representations which will be produced before the Budget.

2. You will find attached:

i. A summary of the representation from twenty organisations; as none of these seem to fall in the "first division" a matrix has not been prepared.

ii. At Annex A a list of subjects raised in correspondence from members of the public either directly or through their MPs, and by the less important organisations or those interested in a single issue (listed at Annex B). Because of the increasing number of letters now being received the subject list is confined to subjects where a total of ten or more representations have been received.

NUMBERS

3. In February we have received 840 letters from members of public and 478 Ministerial cases. This makes a total of 2,506 letters from the public and small organisations and 1,318 Ministerial cases. In addition, as a result of the NUPE campaign to increase spending on the National Health Service, we have received almost 5,500 preprinted postcards as well as 243 xeroxed letters from students

at the Birmingham University Medical School. We have received representations from a total of 170 organisations and summaries have been provided for ninety of these.

SUBJECTS

4. One new subject which gained some prominence over the last month was Forestry and a total of 49 letters were received including 5 from organisations listed in Annex B. There was a clear majority in favour of ending the present favourable tax treatment. Tax concessions for the elderly continued to receive strong support and it has now overtaken CGT as the third most popular subject of correspondence overall, just behind anti-tobacco lobbyists. Taking into account the 5,750 cards and xeroxed letters mentioned above, there have been almost 6,500 representations in favour of increased public spending rather than tax cuts.

MRS T C BURNHAMS

LIST OF ORGANISATIONS

National Council of Building Material Producers

Bus and Coach Council

Association of British Insurers

United Kingdom Agricultural Supply Trade Association Limited

Farmers Union of Wales

The Federation of Building and Civil Engineering Contractors (Northern Ireland) Limited

Child Poverty Action Group

Tax Payers' Society

Freight Transport Association

Tenant Farmers' Association

Age Concern

Kleinwort Benson Limited (on behalf of clients)

The National Federation of Worker Cooperatives

Royal Automobile Club

Leeds Chamber of Commerce and Industry

The Bank of England (on behalf of City Associations)

The National Council of Women of Great Britain

Bristol Chamber of Commerce and Industry

British Institute of Management

Petrol Retailers Association

National Council of Building Material Producers

- Targetted tax allowance for individuals and companies investing in inner city projects.
- Tax inducements to attract finance into the private rented sector.

Bus and Coach Council

- Provision of capital grants or allowances to allow renewal of bus fleets.
- Reinbursement of hydrocarbon oil duty to coaches.
- Retention of rural transitional grant
- No change from zero rating of passenger transport for VAT.

Association of British Insurers

- Abolish Stamp Duty
- Extend capital allowances to non-industrial buildings
- Immediate repayment of IT and tax credits for insured pension schemes
- Interest for early payment under Pay and File
- Tax relief for pre-determined amounts insurers have to set aside under EEC Directive on Credit Insurance
- ACT to be capable of reduction by double taxation relief and relaxation of rules governing carry back of ACT
- Relief for losses on foreign currency borrowing.

United Kingdom Agricultural Supply Trade Association Limited

- 100% relief for the first £50,000 per year of capital expenditure including buildings
- 50% first year allowance on plant and machinery
- Reduce small companies CT rate.
- Extend BES scheme to allow PLCs to claim tax allowances on money invested in qualifying business.

- Nil rate IHT band up to £250,000 and less steep graduation of tax thereafter
- Relief on gifts should be a percentage of value
- Further relief to be available for assets difficult to realise eg shares in unquoted companies. Tax to be payable only on realisation
- Unused relief should be available for the surviving spouse.
- Freeze duty on diesel fuel.
- VAT on diesel engined fleet cars to be recoverable.

Farmers Union of Wales

- Increased personal allowances rather than rates of tax
- Relief for interest on borrowing for repairs expenditure
- MIR to be index linked, borrowing for farm purchase to be net of basic tax rate, payments for wayleaves by Electricity Boards to be gross of basic tax
- Abolish Class 4 NICs and reduce employers' NICs contributions
- Reintroduce 1st year capital allowances
- Abolish VED for tractors
- Freeze duty on petrol and diesel oil
- No extension of VAT and some easement in present registration rules
- Increase IHT threshold to £250,000, reduce rates and increase reliefs
- Abolish CGT, but if not, increase roll-over relief and reduce rate.

The Federation of Building and Civil Engineering Contractors (Northern Ireland) Ltd

- Remove VAT threshold to eliminate abuse
- Remove or reduce VAT on repairs
- Tighten up on issue of tax exemption certificates
- Increase threshold for Stamp Duty to £60,000
- Increase ceiling for MIR to £40,000 and index to house prices
- Capital allowances for commercial buildings
- Longer transitional periods for payment of Corporation Tax
- Extension of Urban Development Grants to whole of Northern Ireland
- Increase personal allowances and consider integration of IT and NICs
- Increase PIID threshold to £15,000
- Remove restrictions from occupational Pension Schemes and index limit as lump sums.

Child Poverty Action Group

- Increase child benefit
- Introduce independent taxation - phase out MMA, non-transferable allowances
- Restrict tax allowances and reliefs to standard rate
- Tax fringe benefits at full value
- Remove NICs UEL for employees
- Increase capital and wealth taxes.

Tax Payers' Society

- IT basic rate 25p, top rate 50p
- Re-introduce Reduced Rate Relief
- Abolish income limit on age allowance
- Abolish CGT on assets held over one year
- Increase threshold for Inheritance Tax
- Relief on professional fees
- Relief for private health insurance
- Increase VAT threshold for small firms to £40,000
- Remove NICs UEL.

Freight Transport Association

- Reduce VED on commercial vehicles and increase flexibility on refunds
- Reduce duty on diesel
- Bring VAT into line with EC
- Increase capital allowances for commercial vehicles

Tenant Farmers' Association

- GCT - introduce roll-over reliefs to owners who let farms
- Inheritance Tax - increase relief to 50 per cent for owners who let land
- Refund VAT for repairs/maintenance by working agricultural landlords.

Age Concern

- Restore age allowance to 1983-84 values
- Convert age allowance to a retirement allowance to apply equally to men and women
- Increase the over 80 allowance
- Introduce independent taxation
- No extension of VAT base
- VAT relief on vertical lifts, alarm call systems for elderly people, and to charitable bodies who purchase welfare vehicles for building work and maintenance.

Kleinwort Benson Limited - (on behalf of their clients)

- Increase incentives for Profit Related Pay in the form of a rebate for employers on their NICs
- Reduce CT rates and increase threshold for small business rate to £200,000
- Abolish Stamp Duty on share transactions.

The National Federation of Worker Cooperatives

- Partial exemption from CT for cooperatives
- Increase tax relief on loan interest
- Relax CGT rules on reliefs available where employee trusts are formed to acquire companies
- Tax relief for the provision of child care facilities.

Royal Automobile Club

- Freeze VED and petrol taxes
- No increases in motor taxation without commensurate expansion of investment.

Leeds Chamber of Commerce & Industry

- Increase threshold on PIID to £15,000
- Increase SAYE share option schemes limit from 5% to 6%.

Bank of England (on behalf of City Associations)

A number of technical representations and the following:

- Allow tax deductibility for exchange rate fluctuations
- Introduce new scale rates for diesel company cars
- Abolish Unit Trust Investment Duty
- Raise capital allowance on high cost cars from £8,000 to £15,000.

The National Council of Women of Great Britain

- Introduce transferable allowances.

Bristol Chamber of Commerce and Industry

- Reduce income tax
- Raise thresholds for NICs
- Increase PIID threshold

The British Institute of Management

- Reduce personal taxation rather than business or indirect taxation
- Increase personal allowances and thresholds
- Relief for management education and training
- No changes in VAT

Petrol Retailers Association

- Reduce excise duty on unleaded petrol.

Subject	Letters received in February	Total to date
Increase public spending rather than tax cuts	446	727
More tax concessions for the elderly	111	223
Abolish or reduce CGT	91	214
End penalty on marriage	87	174
Increase differential on unleaded petrol	67	102
Increase tobacco duty	65	236
Reduce duty on aviation fuel	65	70
Increase personal allowance	64	120
Tax relief for private health insurance	52	83
Increase tax relief for LVs	51	77
Tax relief for forestry	49	49
Abolish VED and increase petrol duty	40	48
Increase tax on company cars	38	53
Support independent taxation	32	86
Abolish or reduce Inheritance Tax	21	38
Freeze tobacco taxation	20	95
Increase tax advantages for charities	14	18
Support tax cuts	14	30
Increase higher rate tax	13	38
Remove VAT on goods currently taxed	13	13
Abolish or reduce Stamp Duty	13	31
Increase tax concession for widows	13	21
Increase capital allowances	9	15
Increase duty on alcohol	9	17
Tax relief for savings	8	18
Tax relief for domestic help	7	23
Increase MIR threshold	6	10
Freeze duty on alcohol	5	17
Increase VAT threshold	5	10
Abolish or reduce MIR	4	12
Increase number of goods exempt from VAT	2	11

441/023/AC

ANNEX B

LIST OF OTHER ORGANISATIONS

The Scottish Scenic Trust

Highlands and Islands Development Board

The Ulster Timber Growers Organisation

Timber Growers United Kingdom

Institute of Chartered Foresters

mjd 2/8Jn

UNCLASSIFIED

PWP

FROM: J M G TAYLOR

DATE: 9 March 1988

MRS BURNHAMS

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Scholar
Mr Culpin
Miss Sinclair
Miss Evans

PS/IR
Mr Marshall IR
PS/C&E
Mr R Allen C&E

1988 BUDGET REPRESENTATIONS

The Chancellor was grateful for your minute of 4 March.

J M G TAYLOR

4369/51

CC:- PPS, CST
Sir. P. Middleton
Mr. Anson
Mr. Monck
Mr. Burgner.

MP

Treasury Chambers, Parliament Street, SW1P 3AG

R W L Scott Esq
The Ulster Timber
Growers' Organisation
Baronscourt Estate Office
Omagh
COUNTY TYRONE
BT78 4EZ

10 March 1988

Dear Mr Scott

Thank you for your letter of 19 February 1988 addressed to Mr Viggers MP; which has been passed to the Financial Secretary for reply.

The Financial Secretary has asked me to assure you that your representations will be carefully considered as the final Budget decisions are made. However, I hope you will understand that it would be inappropriate for the Financial Secretary to comment further at this stage.

Yours sincerely

Susan Feest

SUSAN FEEST
Assistant Personal
Secretary

TUC

Trades Union Congress

Congress House
Great Russell Street
London WC1B 3LS
Telephone: 01-636 4030
Fax: 01-636 0632
Telex: 268 328 TUCG

Ch/ just acknowledge or any substantive answer required?
MPW 14/3

Polite Ack only

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
11 Downing Street
London
SW1P 3JB

CH/EXCHEQUER
REC. 14 MAR 1988
ACTION Mr Saunders
COPIES TO CST, FST, PMG, EST
Sir P Middleton
Sir T Burns
Mr Anson
Mr Phillips, Mr Scholar
Mr Monck, Mr Culpin
Mr Turnbull, Mr Pearson
Mr Burgner, Mr McIntyre

Your reference:

Our reference: SIIW/NDW/PJ/DC

Date: March 14 1988

Dear Mr Lawson

On December 24, 1987, I sent you the TUC's proposals for the 1988 Budget and together with my colleagues discussed these with you at the NEDC meeting on January 13. Since that time you will be aware that every opinion poll published shows the importance the public attaches to the health service and the almost complete agreement about the need for extra NHS spending. The expected record Government receipts give you the chance to close the widening gap between health needs and resources in the hospital and community health services, by spending more on the NHS.

This gap has widened over the last six years as a result of a calculated underfunding of the service. This approach has saved a small amount of public money at the expense of public health. The latest official figures show that the Government spent only an extra £56 million or ½ per cent in real terms on the hospital service in the five years between 1982 and 1987, while the DHSS acknowledged that health needs were increasing at a rate of around two per cent a year in real terms.

The TUC wholeheartedly supports the conclusions of the latest All Party Select Committee report. The Committee calculated the health spending gap at £1.9 billion.

From our Budget submission you will know of our priorities:

* The TUC wants to see more of the country's wealth going to help those most in need. Britain has become an increasingly unequal and unfair country under this Government. The priorities should be an increase in child benefits, higher pensions and more help for the unemployed.

* The Government should be addressing the fundamental weaknesses in the economy. Britain is still far behind its competitors in training, R&D and investment. The TUC is calling for an urgent programme of employment creation, inner city regeneration, industrial aid and regional support to get the strength back into the economy.

* But above all the TUC is calling for an immediate increase in spending on the health service. The Chancellor has funds available for tax cuts but the TUC believes there is overwhelming support in the country for an emergency programme of spending on the NHS of around £2 billion.

The Government's approach that the Budget is a time for taxation rather than expenditure decisions is inaccurate and misleading. In March 1985 the Financial Statement and Budget Report which you yourself laid before the House stated that "The Prospects for expenditure, as well as for revneue and borrowing, are reviewed annually in the Budget." In your Budget speech you announced expansion of some employment and training schemes. The Budget Report is quite clear "The net cost to public expenditure will be added to the planning total".

The TUC asks the Government even at this late stage to use Budget Day as an opportunity to invest the extra monies needed by the service to eliminate the gap between NHS needs and resources. All that is lacking is the political will.

Yours sincerely

Norman Willis.

General Secretary

TUC

Trades Union Congress

BUDGET FOR HEALTH

MARCH 1988

A BUDGET FOR HEALTH

The TUC has consistently reaffirmed its support for the National Health Service based on principles of comprehensive care for all on the basis of need, free at the point of use. We have drawn attention to the observable and growing gap between hospital needs and resources since 1984. This gap threatens to prejudice the future development of the NHS after 40 years of service to the people of this country. We have called for greater resources to be made available to the NHS in successive meetings with the Secretary of State for Social Services and health ministers. We have invited the views of the public on the need for additional NHS expenditure and over 94 per cent agreeed with us that more should be spent on the service. Now, we call on the Chancellor of the Exchequer to take action to arrest the well documented deterioration in at least some NHS services by using the Budget speech to announce more money for the health service.

The Funding Gap

The diagnosis of almost every student of the health service is that the NHS has been persistently underfunded in recent years. The hospital services have faced new needs at the rate of two per cent a year, chiefly for demographic reasons, yet they have only received average extra expenditure of 0.4 per cent a year over the last six years. This was the conclusion of the All-Party House of Commons Social Services Committee last year.

The latest Social Services Committee report calculates that the real increase in this spending was only £64 million in the five years between 1982 and 1987. It was recently confirmed by the Minister for Health in the House of Commons that the real increase in spending had been even less - £56 millions over the same period. This level of investment was taking place at a time when the DHSS itself estimated that health needs were increasing at a rate of around two per cent a year in real terms.

The health spending gap has been aggravated by the fact that this money has not been spread evenly among health authorites, but divided on "RAWP principles", to assist the less well provided parts of the country with NHS services. RAWP was designed to concentrate any increased resources above those needed to the more deprived parts of the country and not to take essential resources away from health authorities. The practice has been that "RAWP-losing," authorities have lost money in real terms. North West Thames RHA has estimated that it has suffered a real cut in resources of 9½ per cent over the last five years.

Addtionally, health authorities have been expected to raise money to balance their books by a combination of efficiency savings, privatisation, the sale of land and buldings. The Government's own Comptroller and Auditor General drew attention to the damaging effects of this approach to patient services. A National Association of Health Authority (NAHA) survey has shown that one out of every two health authorities is cutting patient services because of anticipated deficits this year. A report published by the Association of London Authorities at the beginning of the month showed that in London the privatisation of ancillary services has led to deteriorating standards, poor hospital hygiene and appalling working conditions.

The growing gap between needs and resources has been a recurring theme in TUC health policy statements. The last statement, "The Health Spending Gap" (May 1987) reported that this gap was estimated at £1,665 millions. The latest estimate published by the All-Party House of Commons Social Services Committe on March 2, 1988 showed that the gap had increased to £1,896 millions. The table below shows how the growing gap has accumulated over the last five years:

Hospital and Community Services Spending

England, £m, 1987-88 prices

Year	Actual Spending	Target Spending	Annual Shortfall
1982-83	11,203	11,279	-76
1983-84	11,204	11,448	-244
1984-85	11,195	11,631	-308
1985-86	11,210	11,898	-414
1986-87	11,267	12,148	-454
1987-88	11,427	12,391	-400

Cumulative Shortfall £1,896 million

Source: First report of the House of Commons Social Services Committee on resourcing the National Health Service, (1987-88)

Current Position

The current difficulties of health authorities are caused by a combination of this cumulative underfunding and the end of year problems experienced by a growing number of health authorities in balancing their budgets. The inflexibility of the system of public expenditure planning identified by the recent Treasury and Civil Service Select Committee report has contributed to these difficulties, particularly, the failure to relate public spending cash limits to pay settlement levels in the NHS.

The effect of these pressures has been to close hospital beds, sell land and buildings and make staff redundant with resulting staff shortages and lengthening waiting lists which has risen to almost 700,000 on the most recently available figures. These factors have combined increase public awareness and concern about the state of the NHS and to make health the most important issue according to recent surveys of public opinion. Over 94 per cent of people questioned in a TUC sponsored NOP poll favoured extra spending in the Budget for the NHS.

The All-Party Social Services Committee observed that a dismal picture of the service was provided by the bed closures, service reductions and under-used facilities. The closure of beds has affected many parts of the country. A recent BMA hospital survey reported that about two thirds of the 5,300 hospital beds closed last year were closed as a result of the financial difficulties experienced by health authorities. Only 900 new beds opened over the same period. London is estimated to have lost 1,400 out of 24,000 hospital beds in 1987. And there have been many well publicised exampled of closures and cancellations at individual hospitals, such as the closure of a quarter of the beds at Birmingham Children's Hospital, the closure of the children's cancer ward at Barts and the cancellation of 3,500 operations at the Royal Berkshire hospital in Reading. New and completed developments have failed to open because of the shortage of cash. There are unopened wards at St Mary's Paddington and some hospitals throughout the country have had to mothball new facilities including those at Leicester, Birmingham and Bristol.

The Government's Public Expenditure White Paper published in January confirmed that the share of health spending will fall as a percentage of national income (GDP). It is estimated that GDP will increase overall at a rate of 2.5 per cent in 1988/89, whilst the real increase in health spending, net of charges will be around 1.2 per cent. This White Paper provided no extra cash for the service compared with the Chancellor's Autumn Expenditure Statement. It reiterated that hospital spending is planned to rise by £704 milion from £11.4 billion in the current year to £12.1 billion in 1988/89. This gives growth in cash terms of 6.2 per cent compared with an anticipted 4.5 per cent increase in the retail price index. But this amount will not only have to meet increased needs but also the costs of medical advance, special initiatives not separately funded and any underfunding of pay awards, including the underfunding carried forward from previous years.

The TUC has strongly criticised the Government for agreeing NHS pay awards which is not prepared to fully fund, a criticism that has been taken up in every section in the NHS.

Greater Efficiency

The Government has insisted that health authorities contribute £150 millions annually towards their own budgets. These cost improvements or efficiency savings are now required as a standing feature of the health service budget. The Comptroller and Auditor General, NAHA and the All Party Social Services Committee have expressed concern that this policy has resulted in cuts in services being dressed up as savings, since individual authorities are expected to contribute to this improvement on an annual basis, irrespective of their performance. It has also resulted in service development money being used to sustain existing services.

Where NHS staff have acted to reduce waiting lists and treat more patients they have sometimes found themselves denied the resources required to treat extra patients or themselves without a job because the number of hospital beds and staff are reduced with the fall in the waiting lists. There is strong pressure on health authorities to remain within their cash allocation through savings which close hospital beds, cancel operations or sack staff. The Social Services Committee has already commented on the paradox that unlike manufacturing, improved NHS productivity and performance leads to more expenditure.

Efficiency savings have also encouraged the sale of hospital land and buildings. Sales have increased from £19 million in 1982 to £130 million in 1986. This increase in sales is planned to continue at the present level to make good the shortfall in NHS capital spending as shown by the recent Public Expenditure White Paper. Next year hospital capital spending is only planned to rise by £11 million (1.2 per cent) and health authorities will have to rely on land and building sales to make up this shortfall in capital investment.

The privatisation of NHS support services has been a key element in the efficiency savings programme. Ministers have claimed that total savings of £103 million have accrued as a result of compulsory competitive tendering of ancillary services. More than half of this figure was attributable to tenders awarded in-house and the costs incurred through redundancy and early retirement associated with competitive tendering have largely been ignored. Likewise the costs borne by dedicated NHS staff in unemployment and deteriorating service conditions. Compulsory tendering and privatisation has generally led to cuts in the quality of service as shown in the AMA Report, reductions in the numbers and the pay and conditions of many low paid health service employees and ultimately in failures to provide basic services. There were 171,000 ancillary staff in 1982 and this number had fallen to 132,000 by 1986.

Health authorities have also been forced to bear a share of NHS pay awards. Previously Government met the full cost of centrally negotiated awards to protect the level of local services. New arrangments have meant that health authorities have to fund a small but increasing proportion of NHS pay which has been carried forward to 1988/89, together with any additional shortfall from the current round. The accumulated underfunding of pay awards has been estimated at £396 millions. This has been partly paid for by the cash released by cost improvements and efficiency savings.

Service Pressures

Over the last few years the service has increasingly relied on the fund raising efforts of health authorities through efficiency savings, higher productivity and the commitment of staff. The gap between NHS needs and resources will continue to widen without extra investment now.

The planned level of hospital expenditure announced for next year will not avert a conflict between costs pressures and service development. This conflict has already closed almost 50,000 beds. The service has shrunk from 361,670 beds in 1979 to 315,714 in 1986. In London, hospital beds closures are running well ahead of the 10 year programme raising concern that the hospitals will be unable to cope with the increasing number of AIDS patients requiring hospital treatment.

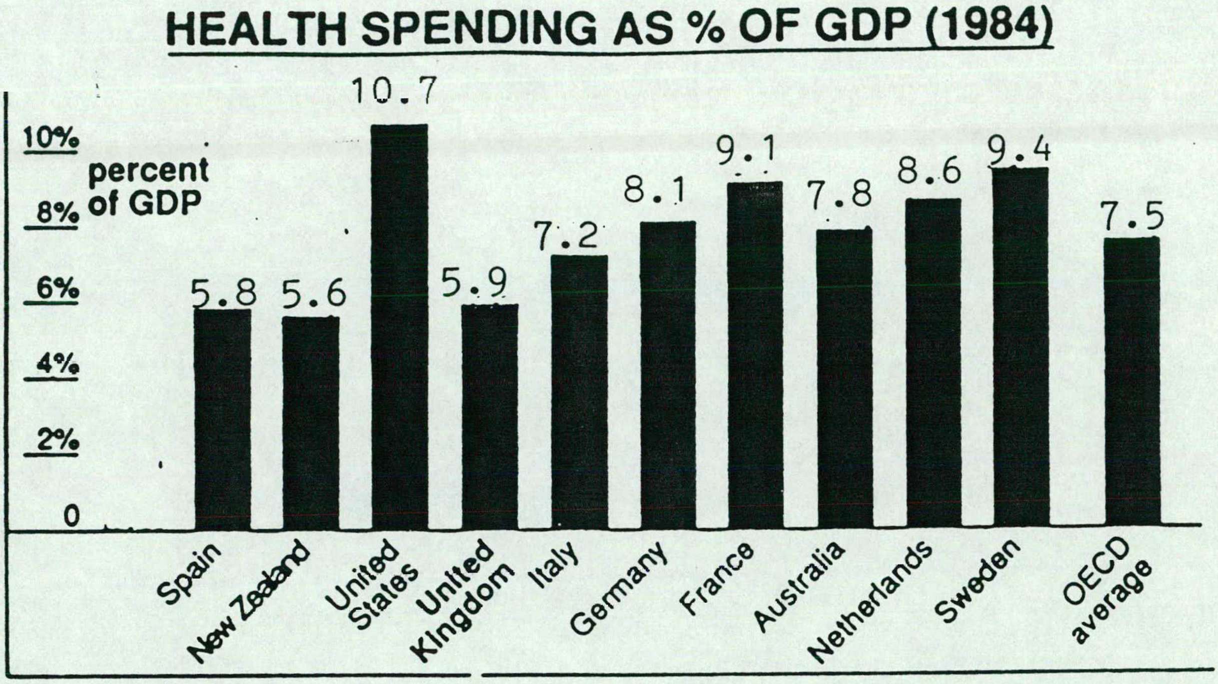
This has meant much greater pressures on the service since it has to continue to work within tight cash limits higher inflation, and face annual additional needs of two per cent a year to meet demographic and technical changes. We endorse the view of the Social Services Committee that while the health service budget is based on a single national measure of inflation it will always lead to a shortfall in monies provided for the NHS. The extra cash for next year will have to meet the full costs of next year's NHS pay and price increases while simultaneously seeking to meet extra patient needs.

The underfunding of the service reductions has had serious implications for the morale and conditions of the million staff who work in the NHS which is exacerbated by low pay levels throughout the service. We have made separate representations to the Secretary of State for Social Services on the issue of NHS pay.

Inequalities and Comparisons

The aim of the National Health Service to provide fair and equal standard of treatment for all has provided a difficult challenge substantial inequalities in health remain, exacerbated by regional differences in unemployment and social deprivation. Action has has been taken to reduce these inequalities but the benefits from initiatives, like RAWP, have been jeopardised by the failure to fully fund the NHS.

Britain spends less on health than almost any other western country. In the past 25 years, the proportion of national income devoted to health has doubled in most countries but only increased by half that rate in Britain. This is reflected in the table below:



Total UK spending on health compared with that of other countries. Source: OECD

The gap in international health spending is emphasised by health spending per head of the population. Each person in Britain spent less than a third of the amount spent by an equivalent American citizen, £315 compared to £999 on latest available figures. Despite these major spending differences international health indicators show that the NHS provides better care than many more expensive systems. Even with current spending difficulties, the NHS continues to be an object of administration for the effectiveness of its services.

TUC Proposals

The TUC has called for an end to the health spending gap currently calculated at £1.9 billion by the All Party Social Services Committee. We called for an immediate, spending package of £750 millions as a first installment of bridging the gap in December 1987. This immediate package was intended to act as a lifeline to alleviate the urgent budgeting proposals faced by the service. It also recognised that the health and well being of the nation depends on a broader spread of social investment over and above spending on the NHS.

The TUC's immediate package sought to provide relief for the hospital service as well as sustaining NHS services and the fabric of the service. In particular it called for an end to the recurring budgetary problems faced by health authorities towards the end of each financial year. The seven point package called for:

* backdated fully funded pay settlements;

* realistic assumptions of NHS inflation in the health service budget;

* an end to enforced efficiency savings, irrespective of performance;

* flexibility to ensure a continuing match between needs and resources during the year;

* a 12 month moratorium on hospital bed closures;

* greater investment to meet increased costs of care and treatment; and

* a start on the outstanding backlog of repairs and maintenance.

This package is part of a more substantial demand intended to bridge the gap between NHS needs and resources, currently estimated at £1.9 billion. Further investment to remedy some of the more substantial issues such as fair treatment on pay and the backlog of repairs and maintenance in the service may require further investment in the longer term.

The TUC is clear that the closing of this gap is essential if the comprehensive and universal foundation of the service is to be maintained on a continuing basis.

1 ~~Move~~
2 Prvy

10 DOWNING STREET

Alex Allan

You may care to see the attached. I didn't actually give them any support. I merely accepted lunch and listened!

George Guise
Policy Unit

~~Ch~~
~~A bit sinister especially of lobbyists increasingly view Policy Unit as target.~~
~~AA~~

GALLAHER TOBACCO (UK) LIMITED

MEMBERS HILL · BROOKLANDS ROAD
WEYBRIDGE · SURREY · KT13 OQU
TELEPHONE: 0932-859777
FACSIMILE: 0932 859777 EXT. 2233 TELEX: 25505

18th March 1988

George Guise Esq
Policy Unit
10 Downing Street
London
SW1A 2AA

Dear Mr Guise,

I wanted to write to you to express my appreciation for the support you have given us in relation to tobacco taxation.

The increase in the Budget of 3 - 4p for 20 cigarettes is in line with inflation and I believe the Chancellor has treated the industry fairly. Whilst no-one welcomes any increase in tax, specially a tax which is already too high, an increase such as this recognises the position of the U.K. tobacco industry and is consistent with the freeze imposed last year which halted the growth of cheap imported cigarettes.

We explained to the Chancellor that the import position is still very fragile and any significant duty increase could well have re-stimulated import growth. This increase, in line with inflation, should ensure that the imports remain under control and enable us to continue to provide good quality jobs.

Yours sincerely,

Dick Boxall

R R BOXALL
DIRECTOR

ps2/48M

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

22 March 1988

Norman Willis Esq
General Secretary
Trade Union Congress
Congress House
Great Russell Street
LONDON WC1B 3LS

Dear Norman

Thank you for your letter of 14 March, setting out your priorities for the Budget. I can assure you that I noted your views, and I was grateful to you for developing the points you made in your earlier Budget representations.

Yours

Nigel

NIGEL LAWSON

MRS BURNHAMS.

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

22 March 1988

Matthew Taylor Esq MP
House of Commons
LONDON
SW1 0AA

Dear Matthew

Thank you for your letter of 14 March enclosing a petition calling for priority to be given to spending on the NHS rather than cuts in income tax rates. I can assure you that I noted your representations.

The overall level of spending on the National Health Service is, however, not a matter for the Budget: it is settled every Autumn in the annual public expenditure round. The last public spending round has not long finished, and its results were announced in the Autumn Statement and Public Expenditure White Paper. Our plans for the coming year show the largest increases ever: we are planning to provide at least £1,100 million more than is being spent this year, with similar increases in the two following years. Despite substantial increases in health spending, however, it is clear that all is not well in the NHS. That is why Ministers are undertaking a fundamental review of health provision. You can be assured that we will make known our conclusions as soon as possible.

In the meantime, however, it is important to recognise that there is no conflict between the tax reductions I announced in the Budget and better public services. Quite the reverse. We have been able to increase the resources available to the NHS precisely because our economic policies have created conditions in which industry and business can prosper. Central to this strategy has been a steady reduction in the burden of taxation on individuals and companies, to encourage them to work hard, export, and innovate. That is the only way to create the resources which ensure that we can all enjoy better public services in the years ahead.

Yours
Nigel

NIGEL LAWSON

HOUSE OF COMMONS
LONDON SW1 0AA

PS/Ack ✓

Dear Nigel,

I am delivering you a petition collected amongst my constituents calling for the health service to be made a higher priority than a cut in the standard rate of income tax in the forthcoming budget.

It has been signed by thousands of people of all party views. The message is straightforward and the choice is now yours alone. Very many sick and old people are depending on you, and I join all of them hoping that you will divert the necessary funds to protect our health service.

Yours sincerely,

Matthew Taylor MP

45/B.rj.2190/013(b)

FROM: N MONCK

DATE: 23 March 1988

CHANCELLOR OF THE EXCHEQUER

cc PS/Financial Secretary
Mr Burgner
Mr Bonney

REPLY TO CPRE

OK

I attach a draft reply.

2. The draft does not deal explicitly with the point at the end of Mr Purkis' third paragraph. As you know, the higher grants for broadleaved trees will be paid pro rata and not dependent on a plantation being 100 per cent broadleaved. But many of the other environmental features of the existing Broadleaved Woodlands Grant Scheme will be applied to all woodlands under the new unified scheme. The new scheme is being announced this afternoon.

NM

N MONCK

45/B.rj.2190/013

Pse type for Ch. sig.

DRAFT LETTER FOR THE CHANCELLOR TO SEND TO MR PURKIS, DIRECTOR OF THE CPRE

Thank you for your letter of 18 March about my Budget announcement on forestry. I am glad to hear that the CPRE welcome it so warmly.

You will by now have heard the details about the new unified Woodland Grant Scheme which were announced ~~[yesterday]~~. Although it may not include everything you want, I am sure many features of it will appeal to you. There will be a substantial differential in favour of broadleaved trees, as well as a supplement for planting on arable or improved grassland. The new broadleaved grants will also apply to the Farm Woodland Scheme, though there will be no change for conifers.

You suggest that there should be annual payments for existing farm woodlands. As I am sure my colleagues will point out to you, that would cut across the economic rationale of the FWS. The scheme is aimed at changing land use and reducing the cost of the CAP by substituting trees for agricultural prospects that are in surplus. So I'm afraid this does not seem a promising idea, despite our agreement on so much else.

[NL]

Council for the Protection of Rural England

Hobart Place, London SW1W 0HY
Tel: 01-235 9481

Patron: Her Majesty the Queen *President:* David Puttnam CBE
Chairman: David W Astor *Director:* Andrew Purkis

CAMPAIGN FOR THE COUNTRYSIDE
CPRE

AP/ID

18 March 1988

CH/EXCHEQUER
REC. 23 MAR 1988 23/3
ACTION Mr Monck
COPIES TO PS/FST
Mr Bonney

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

Dear Chancellor

I should like to pass on CPRE's congratulations on your Budget announcement on forestry. We were very pleased that your statement appeared to follow the broad thrust of CPRE's budget submission to you, which we discussed with Norman Lamont. CPRE firmly believes that this reform will prove beneficial both to the countryside and to the long-term future of the forestry industry.

CPRE also welcomes most heartily the commitment in your Budget speech to a better balance between broadleaved trees and conifers. With the new grants to be announced next week in mind, I should like to make a further specific suggestion to you and your colleagues in other relevant Departments.

CPRE has, on the whole, been satisfied with the workings of the Broadleaved Woodland Grant Scheme (which encourages the replanting or regeneration of the country's existing broadleaved woodlands as well as planting new ones). We hope that key elements of this scheme will be carried through into the new arrangements, particularly the existing requirement that the area to be grant-aided should be 100 per cent broadleaf.

Furthermore, annual hectarage payments for woodlands proposed for the Farm Woodland Scheme (due to be discussed at the Commons Committee stage of the Farm Land and Rural Development Bill next week) have also been warmly welcomed by CPRE. Indeed the principle of such payments has been long promoted by CPRE. Unfortunately these payments are currently only intended for newly-created plantations. CPRE hopes that the opportunity can now be taken to extend these management payments to the management of existing woodland, particularly ancient semi-natural woodlands.

These woodlands, which are generally farm woods, are a considerable asset which is frequently badly used and whose value for a range of purposes is diminishing as a result. CPRE believes that extending annual hectarage payments to these woodlands would reverse this wasteful deterioration.

This change could be achieved by amending Clause 2 of the Farm Land and Rural Development Bill and would be widely welcomed. I am of course writing on this point to the Minister of Agriculture, the Secretary of State for the Environment and to the Forestry Commission.

Once again, our thanks for the reform of the forestry tax concession, something that CPRE has worked for over many years.

Yours sincerely

Andrew Purkis

Andrew Purkis
Director

ps3/1T

cc PS/Financial Secretary
Mr Monck
Mr Burgner
Mr Bonney

PMP

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

24 March 1988

A Purkis Esq
Director
Council for the Protection of
Rural England
4 Hobart Place
LONDON SW1W 0HY

Dear Mr Purkis

Thank you for your letter of 18 March about my Budget announcement on forestry. I am glad to hear that the CPRE welcome it so warmly.

You will by now have heard the details about the new unified Woodland Grant Scheme which were announced yesterday. Although it may not include everything you want, I am sure many features of it will appeal to you. There will be a substantial differential in favour of broadleaved trees, as well as a supplement for planting on arable or improved grassland. The new broadleaved grants will also apply to the Farm Woodland Scheme, though there will be no change for conifers.

You suggest that there should be annual payments for existing farm woodlands. As I am sure my colleagues will point out to you, that would cut across the economic rationale of the FWS. The scheme is aimed at changing land use and reducing the cost of the CAP by substituting trees for agricultural prospects that are in surplus. So I'm afraid this does not seem a promising idea, despite our agreement on so much else.

Yours sincerely
Nigel Lawson

NIGEL LAWSON

53/2/MAD/3767/30

CONFIDENTIAL

PMP

FROM: P D P BARNES
DATE: 16 May 1988

MISS HILL IR

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Scholar
Mr Culpin
Miss Sinclair
Mr M L Williams
Miss Hay
Ms Leahy
Mr Painter IR
Mr Johns IR
PS/IR
Mr Graham, Parl Counsel

OIL TAX CLAUSES : INDUSTRY REPRESENTATIONS

The Economic Secretary was grateful for your submission of 11 May.

The Economic Secretary is attracted to the first of your suggested amendments, but has doubts about the second. He would like an early meeting to discuss these, which this office will arrange.

In the meantime, the Economic Secretary would be grateful if Parliamentary Counsel could draft both amendments on a contingency basis.

PB

P BARNES
Private Secretary