

PO-CH/NL/0356

PART A

SECRET

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PO -CH /NL/0356



PART A

1988 BUDGET PRESENTATION
AND BUDGET PACKAGING

NL/0356

PO -CH

PART A

DD's 25 years NAG's 23/11/95.

8-3-88



FROM: A P HUDSON
DATE: 29 January 1988

MR CORLETT - IR

cc Mr Scholar
Mr Culpin
Miss Sinclair
Mr Burr
Mr J Heywood
Mr Cropper
Mr Tyrie
Mr Isaac IR
Mr Mace IR

MAINTENANCE AND COVENANTS: BUDGET DAY PAMPHLET

... I attach a first draft of the Budget Day Pamphlet on Maintenance and Covenants.

2. We had a word about what presentational material would be required, and agreed that this pamphlet should be aimed at the man in the street, and that you would start work on a more detailed press release, explaining the new system for practitioners.

3. Before we go very much further with this pamphlet, or the other one which we are working on, I think we need to get a clear steer from the Chancellor on exactly what format they should take, and who they should be aimed at. I should like to do that in the course of next week. So please could I have comments by, say, close on Tuesday, not with the aim of perfecting the drafting by then, but simply to sort out any horrible mistakes before showing the text to Ministers as very much work in progress. I do not think it is worth spending a lot of time poring over the details until we know what exactly what we are aiming at.

A P HUDSON

MAINTENANCE AND COVENANTS**FIRST DRAFT OF BUDGET DAY PAMPHLET ETC.**Introduction

1. The Government is introducing a major reform of the tax treatment of maintenance payments and covenants, which will make the system fairer and simpler.

2. This pamphlet explains why the changes are being made and how the new system will work.

Summary of the changes

3. The new system will apply to new maintenance payments and deeds of covenant. Existing arrangements will not be affected. And tax relief will still be given for all covenants to charities.

4. For new maintenance payments, starting from [date]:

- the person receiving the payments, normally a divorced wife, will not have to pay tax on them;
- a man maintaining his ex-wife will get tax relief on the payments he makes, up to a limit of [£2,500];
- there will be no tax relief for maintenance payments.

5. For new covenants:

- payments made under a deed of covenant will be tax-free;
- no tax relief will be given for people making covenants;

- parents of students, who are the main users of covenants, will benefit from a reduction in the parental contribution to the student grant.

The Case for Change

6. The Government wants to simplify the tax system as far as possible. That makes life easier for taxpayers, accountants and solicitors, and the Inland Revenue, alike.

7. The tax arrangements for maintenance payments and deeds of covenant reflect the technical legal consequences of a transfer of income from one person to another under a legal agreement. That was viable in the days when only a small number of relatively well-off and well advised taxpayers were affected. But it is simply not appropriate now that one in [twelve?] of the population are affected, in what are straightforward, everyday situations.

8. The vast majority of maintenance payments are made by divorced or separated men to their ex-wives. This is, in effect, housekeeping money, and there is no reason why the ex-wives should pay tax on it. Similarly, there is no logical reason for giving the man tax relief simply because the payments are made under a particular kind of legal agreement. What should be recognised is the expense of helping to maintain two households. [Dangerous?]

9. The present system for people who are separated or divorced, is extremely complicated.

- Most maintenance payments are paid gross, and the ex-husband has to claim tax relief separately. And if the wife is above the tax threshold, she has to pay tax on the money. This makes work for the taxpayer and the Inland

Revenue alike. And overall, no tax is raised in many cases, because the wife's tax bill is cancelled out exactly by the husband's tax relief. The system is also a disincentive for the wife who wants to go out to work.

- A further complication is that some maintenance payments are paid with tax already deducted. In that case, where the ex-wife is not liable to tax, she has to get a repayment from the Revenue. This makes more work for all, and delays the time when the wife or child gets the full amount of the money.

10. The system can also penalise marriage itself. A few couples, generally well-off and well advised, have gained extra tax relief by remaining unmarried. They take out maintenance orders against each other for the cost of raising their children, and get tax relief on the payments, which married couples are unable to do.

11. The recent Sherdley case has opened the way to further unfairness, by allowing a divorced parent tax relief for the cost of educating his children who are living with him. If that were to become common, the only parents who would not get tax relief for the cost of maintaining their children would be those who got married and stayed married!

12. The same unnecessary complexity arises with covenants. Apart from those to charity, where the system works well, most covenants are made by parents' supporting their student children.

13. Covenants to students have become popular since the age of majority came down to 18, and parents were able to get tax relief. But it is difficult to imagine a more convoluted way of getting State support into the hands of students.

x

14. The parent will usually already have gone through a ~~means-test~~ for the student's grant. He then has to go through the legal rigmarole of making a covenant, and supplying evidence of payment. The Revenue then have to means-test the student and repay him or her the relief. And as covenant income is taxable, many students are discouraged from taking holiday jobs and paying tax on their earnings.

The New System

15. The Government has therefore decided on a radical reform. In essence, this involves taking maintenance payments and covenants out of the tax system, and giving support, where appropriate, in other ways.

Maintenance Payments

16. People receiving maintenance payments will no longer have to pay tax on them. Nor will they have to put them on their tax return. [True?] This will simplify the tax affairs of some A million people.

17. A man maintaining his ex-wife will get tax relief on the payments he makes, up to a limit of [£2500], equal to the single person's allowance. This recognises the cost of helping to maintain a second household. If there were no limit, a few well off taxpayers could get large amounts of relief, far in excess of that available to the married man who is still married. The limit of [£2,500] would cover [over 90 per cent] of existing maintenance payments.

18. No relief will be available for other maintenance payments. [Why?]

Covenants

19. With the exception of covenants to charities, new covenants will be taken out of the tax system altogether. The payers will not get tax relief, and the recipients will not have to pay tax on the money they get.

20. To give broad compensation to students, the student grant for new students will be increased by B per cent from [date]. [Do we have to put this in terms of the parental contribution being reduced?] Thus State support for students will be given solely through grants.

21. Other covenants are, in effect, a gift from one person to another, often from grandparents to grandchildren. There is no reason why these gifts should get tax relief simply because they are made under a legal agreement. This relief is therefore being abolished, as part of the Government's policy of removing special tax reliefs, where possible, and using the revenue saved to reduce the general burden of taxation.

Conclusion

22. These changes will bring a radical simplification of the tax system for ordinary people, sweeping away three different systems of taxing maintenance payments, the unintelligible legal mumbo-jumbo surrounding covenants, and the inevitable bureaucracy that follows both.

- The whole system will be easier to understand.
- All those receiving payments will find their tax affairs easier to handle.
- Student support will be rationalised.
- The Revenue will save C staff.

mp

FROM: MRS T C BURNHAMS

DATE: 3 February 1988

PS/ECONOMIC SECRETARY

cc **PS/Chancellor** 12/2
Sir P Middleton
Mr Scholar
Mrs Lomax
Mr Culpin
Mr Ilett

Roger Williams wrote to the Economic Secretary on 25 January to invite him to take part in a presentation that Hodgson Impey (Chartered Accountants) are giving to their clients and business contacts on 16 March.

2. As this is the day after the Budget all Treasury Ministers have numerous commitments and I recommend that the Economic Secretary replies refusing this invitation. I attach a short response he may care to use.

T. C. Burnhams

MRS T C BURNHAMS

R W Williams Esq
Hodgson Impey
Spectrum House
20-26 Cursitor Street
LONDON EC4A 1HY

February 1988


Thank you for your letter of 29 January about the seminars you are to hold on 16 March about the Budget provisions.

I am sorry to have to refuse your kind invitation to give a short presentation at one of the seminars, but I hope you will understand that all Treasury Ministers have heavy commitments around Budget time, and the day following Budget day is particularly busy.

Please accept my best wishes for a successful day.

PETER LILLEY

ECONOMIC SECRETARY	
REC'D	C 1 FEB 1988
ACTION	MISS SINCLAIR PS CHANCELLOR
COPIES TO	SIR P MIDDLETON MR SCHOLAR MRS LOMAX MR WALPIN MR ILETT


**HODGSON
IMPEY** 
 CHARTERED ACCOUNTANTS

29th January, 1988

Our ref: RWW/BDH

P Lilley Esq
 Economic Secretary to the Treasury
 The Treasury
 Parliament Street
 LONDON SW1

Spectrum House
 20-26 Cursitor Street
 London EC4A 1HY
 Telephone 01-405 2088
 Telex 8814562 Fax 01-831 2206
 DX 458 London/Chancery Lane WC2

*Ms Buchanan,
 Pl. deal. I doubt if
 he'll want to go on 16/3,
 but check first. 
 112*

Dear Mr Lilley,

I am writing to ask you whether you would be willing to take part in a presentation which my firm is intending to give to our clients and business contacts in and around the City.

As you may be aware, this firm is one of the larger UK firms of Chartered Accountants and we have among our clients a number of small and expanding businesses which require us to provide them regularly with up-to-date information concerning business matters, including taxation. One of the ways in which we do this is to organise seminars around the country each year, the day after the Budget takes place, in which we describe the main provisions of the Budget which will affect our clients, and how they will be affected.


This year, we are intending to give two such presentations in London and we feel that they would be of far greater value to our clients and contacts if the Treasury was represented to describe, for example, the intentions behind the budget and the Treasury's hopes as to how business would be benefitted by the Budget provisions.

For this reason, I am writing to ask if you, or one of your colleagues if you are unable to do so personally, would be willing to attend one of our seminars on the 16th March with a view to giving a short presentation, for example ten minutes, on such matters as you believe to be appropriate. We are currently intending to hold our seminars at 8.30 a.m. and at lunch-time on the 16th March, but if you or a colleague would prefer the event to be held at another time that day, we would be happy to re-arrange the time to suit you.

Cont...../2

Offices at Aberdeen Beverley Birmingham Boston Bourne Chelmsford Chester
 Coventry Dublin Edinburgh Fleetwood Glasgow Grimsby Harlow Hereford Horsham
 Hull Leeds Lerwick Liverpool London Newcastle upon Tyne Spalding Thames Valley
 Worcester

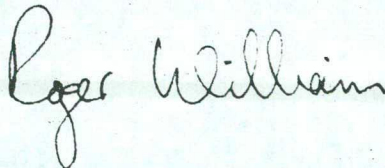
A list of partners is available for inspection at the above address

 A member of HLB International

16/56

I hope that you will be able to take part in one of our seminars, and should be grateful for a quick reply as, you will appreciate, we will need to send out invitations to our clients in the very near future.

Yours sincerely,

A handwritten signature in cursive script that reads "Roger Williams". The signature is written in dark ink and is positioned above the typed name.

R W Williams

→ Simon Sargent.



Alex

One deletion shown -
otherwise fine.
Simon.

Simon

Could you check with PEM
his views on permanent cast-list
for Budget Overview meetings?

All Mins + advisers

PEM

Sir T Burns

Sir G Little

Mr Anson ?

Miss Mueller ?

Mr Scholar

~~Mr Monck~~ ?

Mr Byatt

Mr Wilson

Mr Culpin

Mr Odling-Smee

Mr Sedgwick

Miss Evans.

+ Battushell, Isaac, Painter

+ Urwin, Knox.

Alex

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Culpin
Budget
Present
- 2000
4/2

Copy 1 of 29
FROM: ROBERT CULPIN
DATE: 4 February 1988

CHANCELLOR

- cc Principal Private Secretary
- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr J Anson
- Sir A Wilson
- Mr Byatt
- Mr Scholar
- Mr Sedgwick
- Mr Odling-Smee

- Miss Evans
- Mr Hudson
- Mr Cropper
- Mr Tyrie
- Mr Call
- Miss Sinclair
- Mr Riley
- Mr Battishill) Inland
- Mr Isaac) Revenue
- Mr Painter)
- Mr Unwin) Customs & Excise
- Mr Knox)

602 top
M. J. O. W.

~~Not shown to
postponed this.~~

BUDGET PRESENTATION

The big picture on the Budget is pretty clear. The main bull points will be:

- hat-trick repeated
- lowest basic and top rates since the War
- independence for women
- fairer CGT
- strong growth and low inflation.

Taxes: lower, fewer & simpler
- highest net threshold seen?

? Reduction in tax breaks:
Cars
Forestry
MIR - residence & HIL
Covenants & maintenance
Business entertainment

Tax reform
Balance

fair
[independence]
[fairer CGT]
- is this right up here?

The main criticisms will be:

- Budget for the rich
- wasted opportunity
- current account deeper in red.

It would be easy to extend both lists.

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2. The big picture on publicity is also pretty clear. In addition to the traditional publications, we shall:

- continue and improve the Budget EPR

? sales @ Waterloo

- have pamphlets on independent taxation and maintenance and covenants.

We should pay particular attention this time to the distributional tables. In particular, it will be essential to show the gains from independent taxation - so far as the statistics allow - by income of wives, not couples. And we shall have to consider how to manage information on measures which affect different years.

Arguments, two sides - one 1988-89 & one 1989 taxⁿ.

3. Beyond the big picture, there will be lots of less familiar measures. You might like to ask your Ministerial colleagues, as usual, to look at the presentation of these, and to consider how both large and small measures can be packaged together to appeal to particular constituencies.

4. In the light of that, we may well want to circulate a further paper on presentation for an Overview nearer the Budget, possibly with a consolidated list of awkward questions. In the meantime, this minute gives brief notes.

Numbers affected

5. The changes in the basic rate and the personal allowances will affect far more people than anything else. The key Revenue numbers are approximately these, all in tax units:

- 21 million pay basic rate income tax
- Of these, about 1¼ million pay higher rate income tax
- 1¼ million have company cars

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- 1½ million a year take out home improvement loans
- Less than 0.2 million a year pay capital gains tax
- About 0.1 million a year make covenants to students
- Less than .005 million each year pay inheritance tax.

The Budget as a Whole

6. A simple presentational story would go something like this:

- For most people, most of the time, the main thing wrong with taxes is that they are too high: you are getting them down.
- In some cases, there is a crying need for structural reform - the higher rates, the taxation of married women, and capital gains. You are tackling them.
- In other cases, the tax system is unfair. There is no reason for the nurse on low earnings to subsidise richer people's company cars or double glazing. Nor is there any reason for the tax system to penalise marriage. You are making it fairer.
- In other cases, the rules are needlessly complicated. What is the point, for example, of taxing recipients of maintenance payments only to give unlimited tax relief to donors? You are making things simpler.

*Wd 2 CGT
-3 minimum*

*1982 Budget
Spec*

Grouping measures

7. In the main, the big measures will present themselves; as always, the key will be to get clear explanations into the speech and supporting documents. But we need to give a bit of thought to themes. For example:

- We can clearly group measures under the headings suggested in the previous paragraph: structural reform, fairness, simplicity, etc.

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- We can group them under the traditional functional headings: taxes on spending, capital taxes, etc.

- We can make up quite a package of measures to broaden the personal tax base and clean out nonsenses: cars, forestry, maintenance and covenants, etc.

- There are at least two green measures: forestry and unleaded petrol.

- And so on.

A number of measures will no doubt appear under several headings.

The main measures

8. On the main elements of the Budget you will, as usual, face a number of more or less rude questions; but you have already been over the most obvious. For example:

(a) Whatever happened to the MTFs?

(b) When you said the PSBR should be 1 per cent of GDP, how were we to know you meant minus 1 per cent? (1/2?)

(c) Why is your monetary policy accommodating so much inflation?

(d) Why are your PSBR forecasts always up the pole?

(e) Why stoke up consumption by cutting taxes on persons while allowing the burden on business to rise?

(f) Why haven't you reduced the proportion of GDP you take in taxes and National Insurance contributions?

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(g) What proportion of the cost of the Budget goes to higher rate taxpayers? And how do you justify it when their gross incomes are rising faster than anyone else's, and you are about to let them off the rates?

Self (h) below

(h) Do you expect them to respond, as before, by contributing a higher proportion of your revenue?

Yes for now

(i) Why keep the married man's/couple's allowance when everyone agrees it should go?

recognise families

(j) Why give it back to people who currently forfeit it by exercising the wife's earnings election?

Vanishing MCA

(k) Why are you doing nothing, through independent taxation, for the one-earner couples you said you wanted to help?

That's good idea, but (a) not introduced until 1993, & new phaser. The scheme may give better

(l) Why aren't you introducing partially transferable allowances?

~~Not for the long, esp for~~

(Waste of all worlds (step 1))

(m) If capital gains are like income, why tax only indexed gains but unindexed income?

Make exemption for less complex but less necessary or desirable (charities)

(n) And why keep, then double, the £6,600 exemption for capital gains?

Introduce capital gains tax

(o) Why raise CGT rates for some, only to lock them into their existing investments?

(p) Can we expect you to rebase CGT again?

(q) Why are you breaking your Manifesto pledge to "keep the present system of mortgage tax relief"?

(r) How do you justify yourself to people who can only buy a house if they pool their mortgage relief and share?

I will need a good briefing line on choice of H&W tax options

if US rather

will be (H&W)

eh?

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(s) Why have you dropped the Green Paper idea of converting the Additional Personal Allowance into a benefit? *sketches to catch a nut*

(t) Why give the APA to any cohabiting couples?

(u) Will it take Revenue snoopers to police the restriction on the APA which you are imposing?

(v) How will you defend yourself if deserted mothers get lower maintenance awards because you are depriving fathers of tax relief? *starts date wop phi*

Could's write do that - a bank am... mch...

(w) Why are you going back on the announcement you have already made about car scales for 1988-89? *Some different - see ~~last~~ have progress*

(x) Is lightening inheritance tax now a fixture of Budgets? *no further will from me*

(y) Why nothing serious for companies?

(z) Why no reform of National Insurance/no Green Paper on savings/no improvements in oil taxation/nothing whatever for health/etc etc? *for - 1/2 words will be eq.*

I cannot believe these will stump you.

9. Listing them reminds me of an awkward detail which I am not sure Ministers have yet addressed.

- If maintenance payments are going to be tax free to future recipients, will you be able to justify taxing existing recipients? *Is this v awkward?*

am... mch...

There are several transitional problems of this kind. The Revenue are preparing a paper.

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10. There is a further general question, which keeps cropping up, about what behavioural assumptions we should make in costings for the FSBR. That deserves a note, and FP will provide one in due course.

"Minor" measures

11. What else will attract significant attention?

12. First, a couple of measures you discussed at the last Overview:

- company residence and migration
- the private rented sector.

13. Second, any consultative document you put out on Budget Day on "residence". Is there a presumption that you will publish one with the Budget?

14. Third:

- 1 - importers' details: roughly, allowing British manufacturers, subject to certain conditions, to find out who is importing what from where. You are still in correspondence with Lord Young about this
- 2 - "unnamed persons": roughly, giving the Inland Revenue the power to get information which will enable them to identify taxpayers involved in known schemes of tax avoidance or evasion
- 3 - ending the tax deductibility of what's left of the three Martini lunch.

If you proceed with these three measures, will they all be part of the Budget - that is, announced on Budget Day and included in the FSBR?

Yes to 1 & 3?

But ??

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15. Fourth and last, Customs powers to search. As I understand it, you are committed to legislating in the Finance Bill to make it clear that women suspected of drug smuggling may be subjected to intimate body searches by male doctors. I take it this will not be part of the Budget. Does it need to be announced at all, or can it just be included in the Finance Bill as published? | y-

Conclusion

16. Much will no doubt change between now and the Budget, and there is a lot of work ahead to get ourselves into the best position to sell it. But the main lines of presentation look straightforward and strong. And the main difficulties are blindingly obvious - practically everything benefits the better off, the reform buffs will be disappointed, and you will be swimming against the health tide.



ROBERT CULPIN

B.L.O.

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BF 10/2

① Budget day
 pack
 - Prof. Wilson
 - Hess.



FROM: A P HUDSON
 DATE: 4 February 1988

Handwritten signature

CHANCELLOR

cc Financial Secretary
 Mr Scholar
 Mr Culpin
 Miss Sinclair
 Mr Riley
 Mr A C S Allan
 Mr Cropper
 Mr Tyrie
 Mr Isaac - IR
 Mr Corlett - IR
 Mr Mace - IR
 PS/IR

BUDGET DAY PAMPHLETS

I attach a shot at the Budget Day Pamphlets on Independent Taxation and Maintenance and Covenants. These incorporate initial comments from FP and the Revenue.

2. These are almost certainly too long and detailed to be published as pamphlets. But before any more work is done on the drafting, it would be helpful to have a word about the intended audience and the scope of the pamphlets.

- Are we aiming at journalists? MPs? The man in the street? Or tax practitioners?
- If we cannot satisfy all these in one go, should we aim for a short pamphlet, plus a more detailed press release or note?
- What balance should be struck between arguing the case for the proposals, and simply explaining how the new system will work?
- What format should the pamphlets take, and how widely should they be distributed? Mr Walker's note (attached) sets out the options here.



3. The answers to these questions may, of course, be different for Independent Taxation and Maintenance and Covenants.

- On Independent Taxation, it may be worth putting out a short pamphlet, selling the proposal, and a longer and basically factual press release setting out the consequences in more detail.
- On Maintenance and Covenants, Mr Corlett has already prepared detailed press releases and a Question-and-Answer leaflet designed for the person actually involved in the system (attached, top copy only).

...

A handwritten signature in black ink, appearing to be 'A P HUDSON'.

A P HUDSON

PAMPHLET ON INDEPENDENT TAXATION: SECOND DRAFT

MAIN POINTS

What is Independent Taxation?

1. From April 1990, there will be a new system for taxing married couples.
 - Independent taxation for husbands and wives.
 - Complete privacy and independence for married women.
 - An end to the tax penalties on marriage.
 - Lower tax bills for many people.

2. The Government's reform sweeps away the system of taxing husband and wife as a unit, which lasted for 180 years.

3. Under the new system:
 - A husband and wife will be taxed as separate individuals.
 - Each will have their own tax allowance and set of tax rate bands.
 - The wife will be able to fill in her own tax return.
 - The married man's allowance and the wife's earned income allowance will be replaced by a new married couple's allowance. For simplicity, this will normally be given to the husband, bringing his total allowances up to the level of the old married man's allowance, but if he does not have enough income to use it, his wife can do so.

THE CASE FOR CHANGE

4. The present system for taxing married couples is based on treating husband and wife as one taxpayer, with the husband legally responsible for filling in tax returns and paying the couple's tax. For income tax purposes, a married woman's income is deemed to be her husband's.

5. This principle dates back to the introduction of income tax in 1805. Not surprisingly, it produces results which are unacceptable in today's world.

6. First, a wife cannot have privacy or independence in her tax affairs. Her husband is responsible, in law for filling in the couple's tax return, so she has to give him details of all her income - whether earnings, interest on her savings, or even the profits of her own business. This is absurd, in an age when two out of three married women are in paid work, and millions more have savings of their own.

7. Second, the system means couples can actually have to pay more tax simply because they are married. This affects, in particular, couples where the wife has a certain amount of savings income, but would not have to pay tax if she had her own tax allowance against this.

8. Tax penalties on marriage can occur for various other reasons. The most important of these is mortgage interest relief: a married couple are entitled to mortgage interest relief on loans up to £30,000, whereas an unmarried couple can have relief on up to £30,000 each.

9. It is clearly unacceptable that the tax system should penalise marriage.

10. The Government has therefore decided on a major reform, to make the system fairer, simpler to understand, and up to date.

THE NEW SYSTEM: INDEPENDENT TAXATION

11. The basic principle of the new system is that husband and wife will be taxed completely independently - on earnings, savings, pensions, and any other income. Their incomes will no longer be added together, and each partner will pay their own tax, independent of the other.

12. The wife will be able to fill in her own tax return, and handle her own tax affairs.

13. The married man's allowance and wife's earned income allowance will be abolished. All taxpayers, male or female, married or single, will have a personal allowance (in 1987-88 terms, £2425, for people under 65).

14. Married couples will also receive a new married couple's allowance. The married couple's allowance and the personal allowance together will be worth the same as the present married man's allowance. So, in 1987-88 terms, the married couple's allowance would be £1,370 (the difference between the present married man's allowance of £3,795 and the single allowance of £2,425).

15. The new married couple's allowance will go in the first instance to the husband, so he will see no reduction in his tax threshold as a result of the change to the new system. But if he has insufficient income to make use of the allowance he will be able to transfer it to his wife.

16. Examples 1 and 2, in Annex 1, show how the new system will work.

COUPLES IN PARTICULAR CIRCUMSTANCES

Taxpayers over 65

17. Pensioner taxpayers will see a number of benefits from Independent Taxation.

18. As now, taxpayers over 65 will get a higher tax allowance (and those over 80 a higher allowance still). Married women will qualify in their own right for this allowance, rather than the wife's earned income allowance. They will be able to set this allowance against income of any kind, including investment income and pensions based on their husband's contributions, where the wife's earned income allowance is not available.

19. There will be a higher rate of married couple's allowance for couples where one or both is over 65, and a higher rate still if either partner is over 80.

20. As now, all the age allowances will be subject to an income limit. They will be withdrawn by £2 for every £3 of income above the limit, until they reach the level of the ordinary allowances. Under Independent Taxation, husband and wife will each have their own income limit, whereas at present a single limit applies to their combined income.

Couples on Higher Incomes

21. At present, couples on high incomes, where the wife earns more than a certain amount, generally elect to have the wife's earnings taxed separately, because their combined income would put them in a higher tax bracket.

22. Under Independent Taxation, their incomes will be taxed separately, so the Wife's Earnings Election will

disappear. The husband will normally get the married couple's allowance. However, where the husband's income is above [£40,000] a year, the married couple's allowance will be reduced progressively, until it reaches the level of the single allowance. The same arises if the married couple's allowance is claimed by a wife with a very high income.

"Breadwinner Wives"

23. At present, because all the couple's income is treated, for tax purposes, as the husband's, the wife is able to set the married man's allowance as well as the wife's earned income allowance against her earnings, if her husband cannot use his allowance. This means that the couple where the only breadwinner is the wife pay a lot less tax than the couple where the only breadwinner is the husband.

24. Under Independent Taxation, both couples will be treated in the same way. If the husband has no income, the wife gets the married couple's allowance, so her total tax allowance will be the same as a husband whose wife has no income. If the husband has a small income, but not enough to make full use of the married couple's allowance, his wife can use the balance.

25. If these rules were introduced straight away, some 'breadwinner wives' would see a reduction in the value of their tax allowance. The Government has therefore decided on transitional arrangements to make sure that they do not lose out.

ENDING THE TAX PENALTY ON MARRIAGE

26. The introduction of Independent Taxation eliminates automatically the most common tax penalty on marriage: the taxation of the wife's investment income at her

husband's top rate of tax. The Government is also taking steps to eliminate other tax penalties. Some of those changes will come into effect before the main change to Independent Taxation in 1990.

Mortgage Interest Relief

27. At present, mortgage interest relief is available on a loan of up to £30,000 for the purchase of a home. But two single people sharing a home can get relief on loans up to £30,000 each, whereas a married couple share a single ration of relief. This creates a widely resented tax penalty on marriage.

28. [From August 1988], the limit on relief will apply to the house or flat, irrespective of whether there are one or more borrowers, married or single, living there. This puts unmarried couples on the same footing as married couples, and eliminates the tax penalty on marriage.

Capital Taxes

29. The problems of the absence of privacy for married women and the tax penalty on marriage arise for capital gains tax in the same way as for income tax. A married couple share one annual exemption for capital gains tax, whereas single people have one each, and the husband has to deal with the couple's CGT affairs.

30. From April 1990, under Independent Taxation, husband and wife will each have their own annual exemption, and partners will be responsible for their own affairs.

31. Transfers of assets between husband and wife will remain exempt from CGT and Inheritance Tax.

Additional Personal Allowance

32. At present, married couples can each claim the Additional Personal Allowance if they have two or more children living with them. This means that between them, they get more allowances than a married couple.

33. [From April 1989], the rules for the Additional Personal Allowances will be changed so that an unmarried couple can get no more allowances in total than a married couple.

Maintenance and Covenants

34. A few unmarried couples exploit the present tax reliefs for maintenance and covenanted payments to gain a tax advantage not available to married couples. The Government is introducing a major reform of this area. For new maintenance arrangements and covenants (except to charities), the person receiving payments will not have to pay tax on them, and tax relief will be given only to men maintaining their ex-wives. This will eliminate the tax penalty in this area. (A separate pamphlet/press release gives further details.)

TIMETABLE FOR CHANGE

35. Independent Taxation will come into operation from April 1990.

36. During the previous tax year, local tax offices will need to get in touch with some taxpayers to ask for the information they need to run the new system. That will involve, in particular, setting up records for married women as taxpayers in their own right, and transferring information onto these records from their husbands' tax records.

ANNEX

Example 1 - husband and wife both earning

Take a couple where the husband earns £10,000 and the wife £5,000.

Present system

Husband:	10000	Wife:	5000
<u>less</u> married man's allowance	3795	<u>less</u> wife's earned income allowance	2425
so pays tax on	6205	so pays tax on	2575
so tax bill is	1675.35	so tax bill is	695.25

Independent Taxation

Husband:	10000	Wife:	5000
<u>less</u> single allowance	2425	<u>less</u> single allowance	<u>2425</u>
<u>less</u> married couple's allowance	<u>1370</u>		
so pays tax on	6205	so pays tax on	2575
so tax bill is	1675.35	so tax bill is	695.25

The couple's tax bill is unchanged.

Example 2 - husband earning, wife with investment income

Take a couple where, again, the husband earns £10,000; the wife has no earnings, but has £500 investment income, in dividends on shares inherited from her parents.

Present system

Husband earns	10000	Wife's income is taxed with husband's
<u>plus</u> wife's investment income	<u>500</u>	
so total income	10500	
<u>less</u> married man's allowance	<u>3795</u>	
so pays tax on	6705	
so tax bill is	1810.35	

Independent Taxation

Husband earns	10000	Wife's income	500
<u>less</u> single allowance	<u>2425</u>	<u>less</u> single allowance	<u>(2425)</u>
<u>less</u> married couple's allowance	<u>1370</u>		
so pays tax on	6205	so tax bill is	0
so tax bill is	1675.35		

The couple's tax bill is £135 lower.

Example 3 - "breadwinner wife"

Husband has no income; wife earns £10,000.

Present System

Wife earns	10000
<u>less</u> wife's earned income allowance	<u>2425</u>
<u>less</u> married man's allowance	<u>3795</u>
so pays tax on	3780
so tax bill is	1020.60

Independent Taxation, with transitional allowance

Wife earns	10000
<u>less</u> single allowance	2425
<u>less</u> married couple's allowance	1370
<u>less</u> transitional allowance	<u>2425</u>
so pays tax on	3780
so tax bill is	1020.60

The value of the transitional allowance will fall over the years, as the other allowances are increased, and it will disappear when the combined value of the single allowance and the married couple's allowance reaches the present allowance for a "breadwinner wife".

Example 4 - Pensioner Couple

Take a couple who are both over 65 where the husband has an occupational pension and the State pension, and the wife has a pension based on her husband's contributions.

Pensioner Couple

(Both over 65 under 80)

Now:

Husband:	£	Wife:	£
Occupational Pension	3000		NIL
NIRP (including Cat B for wife)	<u>3427*</u>		
	6427		
Age Allowance	<u>4675</u>		
	1752		
Tax	£ 473.04	Tax	NIL

Independent Taxation

Husband	£	Wife	£
Occupational Pension	3000	NIRP Cat B	1287*
Own MIRP	<u>2140*</u>	Age Allowance	<u>2960</u>
	5140		NIL
Age Allowance	<u>4675</u>		
	465	Tax	NIL
<hr/>			
Tax	£ 125.55		*1988-89 Levels.

So couple pay £347.49 less.

MAINTENANCE AND COVENANTS**THIRD DRAFT OF BUDGET DAY PAMPHLET ETC.**INTRODUCTION

1. The tax system for maintenance payments and covenants has become far too complicated, and produces anomalies and distortions in the way people organise their private finances. It also makes unnecessary work for taxpayers and the Inland Revenue alike. The Government has therefore decided to introduce a reform of the system, bringing a major simplification by taking most arrangements out of the tax system altogether.

2. This pamphlet explains why the changes are being made and how the new system will work.

SUMMARY OF THE CHANGES

3. The new system will apply to new maintenance payments and deeds of covenant. Existing arrangements will not be affected. The people making the payments will continue to get tax relief on them, and the recipients will pay tax on the money they receive, in the same way as now, for as long as the payments continue. And tax relief will still be given for all covenants to charities.

4. For new maintenance payments under Court Orders or agreements made on or after 15 March:

- the person receiving the payments will not have to pay tax on them;
- a man maintaining his ex-wife (or a woman maintaining her ex-husband) will get tax relief on the payments made, up to a limit of [£2,500];

- there will be no tax relief for any other maintenance payments.

5. For payments made under new deeds of covenant, other than to charities:

- the person who receives the covenanted payments will not have to pay tax on them;
- no tax relief will be given to the person making the covenant;
- parents of students starting new courses will stand to benefit from a reduction in the parental contribution to the student grant, to balance the fact that tax relief will no longer be available on covenants made after Budget Day.

THE CASE FOR CHANGE

6. The present system, for both maintenance payments and covenants, is too complicated, produces anomalies and unfairness, and can penalise people who want to work.

Maintenance Payments

7. One in [twelve?] of the population now either makes or receives maintenance payments. The vast majority are made by divorced or separated men to their ex-wives.

8. There is no reason for the tax system to be involved simply because the payments are made under a particular kind of legal agreement. What should be recognised is the expense arising from the breakdown of a marriage, and hence of the need to maintain two households.

9. The system should be as simple and straightforward as possible. In fact, it is extremely complicated.

- Most maintenance payments are paid gross, and the ex-husband has to claim tax relief separately. And if the wife is above the tax threshold, she has to pay tax on the payments she receives. This makes work for the taxpayer and the Inland Revenue alike. And overall, no tax is raised in many cases, because the wife's tax bill is cancelled out exactly by the husband's tax relief.
- A further complication is that some maintenance payments are paid with tax already deducted. In that case, where the wife's income is below the tax threshold, she has to get a repayment from the Revenue. This makes more work for all, and delays the time when the wife or child gets the full amount of the money.

10. The system can also penalise marriage itself. A few couples, generally well-off and well advised, have gained extra tax relief by remaining unmarried. They take out maintenance orders against each other for the cost of raising their children, and get tax relief on the payments, which married couples are unable to do.

11. [The Courts have recently established that a divorced parent can get a Court Order against him or herself for the cost of educating his children who are living with him, and get tax relief for it. Given the tax advantages mentioned above that are open to unmarried couples with children, that could mean that the only parents who would not get tax relief for the cost of maintaining their children would be those who got married and stayed married!]

12. The system can also be a disincentive for the ex-wife (or ex-husband) who wants to go out to work.

Because the maintenance payments are taxable, she may find she has to pay tax on the first £1 that she earns.

Covenants

13. Similar problems arise from the present tax treatment of covenants.

14. Apart from those to charity, most covenants are made by parents' supporting their student children. But it is difficult to imagine a more convoluted way of getting State support into the hands of students.

15. The parent has to go through the legal rigmarole of making a covenant, and supplying evidence of payment. The Revenue then have to check the student's income, and repay him or her the tax that had been paid.

16. As covenant income itself is taxable, many students are discouraged from taking holiday jobs, because they will have to pay tax on the first £1 of their earnings. This is scarcely the best way of introducing young people to the tax system.

17. Covenants can also be used by unmarried couples to gain a tax advantage that is not available to married couples, by covenanting money to their own children and getting tax relief for that.

THE NEW SYSTEM

18. The Government has therefore decided on a radical reform. In essence, this involves taking new maintenance payments and non-charitable covenants largely out of the tax system, and giving support, where appropriate, in other ways.

Maintenance Payments

19. People receiving maintenance payments under new Court Orders or agreements will not have to pay tax on them. Nor will they have to put them on their tax return. [IR checking.] This will simplify the tax affairs of some A million people.

20. A man maintaining his ex-wife will get tax relief on the payments he makes, up to a limit of [£2500], equal to the single person's allowance. This recognises the cost of helping to maintain a second household. If there were no limit, a few well off taxpayers could get large amounts of relief, far in excess of that available to the ordinary married man.

21. No relief will be available for other maintenance payments.

22. Thus the treatment of maintenance payments will be more generous than it is now, in the vast majority of cases. The husband will get the same relief as he does now, and the wife will not have to pay tax on the payments she receives.

23. The system will be

- simpler, with one claim for relief;
- fairer, with no tax penalty on marriage;
- and better for incentives, with the wife able to earn up to the single allowance without having to pay tax.

Covenants

24. With the exception of covenants to charities, new covenants (made on or after Budget Day) will be taken out of the tax system altogether. The payers will not get

tax relief, and the recipients will not have to pay tax on the money they get.

25. The main beneficiaries from the existing system have been parents of students. They will be given broad compensation through a reduction in the parental contribution to the student grant. Thus support for students will be concentrated in the grant system.

26. Students will be able to earn up to the tax threshold without paying tax.

27. Other covenants are, in effect, a gift from one person to another, often from grandparents to grandchildren. There is no reason why these gifts should get tax relief simply because they are made under a legal agreement. This relief is therefore being abolished, as part of the Government's policy of removing special tax reliefs, where possible, and using the revenue saved to reduce the general burden of taxation.

Conclusion

28. These changes will bring a radical simplification of the tax system for ordinary people, sweeping away two different systems of taxing maintenance payments, the unintelligible legal mumbo-jumbo surrounding covenants, and the inevitable bureaucracy that follows both.

- The whole system will be easier to understand.
- All those receiving payments will find their tax affairs easier to handle.
- Student support will be simplified.
- There will be less work for the Revenue in running the system.

OPTIONS FOR PRODUCING BUDGET DAY PAMPHLETS: NOTE BY THE INLAND REVENUE

1. This note considers the possibilities open for the production of Budget Day material over and above press notices etc. In particular, it examines options for producing two additional leaflets or booklets on

- maintenance and covenants, and
- independent taxation

Background

2. The Revenue's in-house printing team produce Budget Day press notices to a very tight deadline, but have always delivered on time. This is achieved by working overtime, in the week preceding the Budget and all weekend (including nights). Last year they printed and collated 13,000 sets of Revenue press notices, each set running to 108 pages. These go into the Budget packs for the media and MPs, and also to tax practitioners and the technical press. They also have to cope with other Budget printing requirements (copying of the Brief, etc, and Instructions to tax offices). We are confident that, provided there are no major operating difficulties, they could produce a similar amount of material this year if necessary; but there is little margin for flexibility, particularly over the pre-Budget weekend.

3. If it was decided to produce any other documents for issue on or soon after Budget Day - for example, a consultative document on residence - scope for the production of additional leaflets or booklets would be further constrained.

Options

4. Bearing this in mind, the main options are:
- i. Use a secure outside printer to print a few thousand copies for distribution with press notices. Printing would take about three days if the Revenue provided copy

BUDGET CONFIDENTIAL

in final form (including finished artwork). The best estimate of overall production time, including setting up, is four to five days. In addition, some time would be needed for putting the leaflets in Budget packs etc. This points to the final text being agreed by Tuesday or Wednesday in the week preceding the Budget (i.e 8 or 9 March). This option would be more costly than printing in-house (in the region of £3,000 to £4,000 for 13,000 copies of each leaflet) but has the advantage that the leaflets could go into the Budget packs, and thus be available to journalists for reproduction in the press the following day. This would be particularly helpful on maintenance and covenants, where those affected will want details as quickly as possible.

- ii. Print the pamphlets in Somerset House well before the pre-Budget weekend. Printing would need to be completed by the Wednesday before the Budget in order not to jeopardise the printing timetable for Press Releases. The final text would need to be settled by the preceding Friday (4 March).
- iii. Issue the text of the pamphlets on Budget Day as press notices and subsequently print the same material so that it appears in pamphlet form two or three days after the Budget. In this case the final text would be agreed to the same timetable as other press releases. It would be necessary to decide the audience at which the pamphlet was aimed and how to get it to them.

Each of options i. to iii. involves a print-run of only a few thousand copies aimed at the media, MPs, representative bodies, and perhaps tax practitioners. A format along the lines of the attached booklets might be adequate (the text itself could be produced to look more "professional", and the page size could probably be altered if necessary).

5. There is a further option which would get leaflets into the hands of a wider audience:

iv. Use a secure outside printer to print a more popular leaflet for the general public. If the text were short enough a format similar to some of the Revenue's explanatory leaflets could be adopted (see attached example). The print run needed for such a leaflet would be longer and more complex than the Revenue could handle in-house. To be available to the press and MPs on Budget Day, and to the public through tax offices by say the Thursday of Budget week, would be a major and ambitious operation, but should be achievable if final texts were agreed by Tuesday 8 or Wednesday 9 March. The cost would be considerable - probably well in excess of £20,000. To keep this option open, we would need to start detailed planning (including lining up a secure printer with capacity for such a job) immediately.

6. We think it is too ambitious to plan for final texts of these pamphlets by 4 March, in which case option ii. is unrealistic. As between options i, iii. and iv. the choice is essentially between aiming at the public directly (option iv), or indirectly through the media, MPs and practitioners (options i. and iii.). As between i. and iii., i. has the advantage of having the leaflets available on Budget Day but costs more.

MR CULPIN
MINUTE OF 4/2
ON BUDGET
PRESENTATION IS
NOW ON BUDGET
PAMPHLETS

BUDGET SECRET - TASK FORCE LIST



NW/356
A

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

Copy No: 1 of 10.

KNOX
PETROL
PRICE
CHANGES
5/2

CHANCELLOR

FROM: B H KNOX
DATE: 5 February 1988
cc: Economic Secretary
Mr Culpin
Miss Sinclair
Mr Cropper

BUDGET PRESENTATION: PETROL PRICE CHANGES

1. Following discussion at the overview meeting on 1 February, we were asked to provide further advice on the presentation of petrol price changes.
2. The two excise packages covered in the scorecard would produce the following price increases.

Internal circulation: CPS, Mr Jefferson Smith, Mr McGuigan, Mr Allen,
Ms French

BUDGET SECRET - TASK FORCE LIST

<u>Single revalorisation:</u>	Price Increase	
	p per gallon	p per litre
Petrol (leaded)	5.6	1.2
Petrol (unleaded)	nil	nil
Derv	4.9	1.1
 <u>Double revalorisation:</u>		
Petrol (leaded)	10.6	2.3
Petrol (unleaded)	5.6	1.2
Derv	10.2	2.2

3. Over 80% of petrol stations now have pumps calibrated in litres. But trading standards law requires that any pump dispensing in litres must also show on it the price in pence per gallon. Equally, the road-side displays of petrol stations whose pumps are calibrated in litres must give prices of 4 star petrol in both pence per litre and pence per gallon. (There is no converse requirement to show prices in pence per litre for stations whose pumps are calibrated in gallons).

4. At the moment then prices are generally shown both in gallons and litres and it is our belief that the petrol-buying public in general are still more familiar with the gallon price and find it much easier to grasp the size of changes if expressed in pence per gallon. If duty increases were to be fairly high (as with the double revalorisation package), there would be a danger about making a presentational change this year, that you might be accused of trying to hoodwink the public about the size of the increase. There is also a problem over unleaded petrol: the new differential of 10.6p per gallon (on single revalorisation) sounds much less significant as 2.3p per litre. But otherwise we see no reason why the increase should not be expressed in pence per litre.

Bruce Knox

B H KNOX

AMP

APH

FROM: P J CROPPER
DATE: 5 February 1988

CHANCELLOR

*back taken
for SW by
Budget speech*

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

CHANCELLOR'S PRE-BUDGET SOUNDINGS - 3 FEBRUARY

Present: Chancellor
Sir Peter Hordern MP
Sir Peter Emery MP
Sir Geoffrey Johnson Smith MP
Rt Hon Michael Alison MP
Sir Rhodes Boyson MP
Nigel Forman MP
Peter Cropper

Sir Peter Hordern thought it would be wise to have a rather tight budget, with as little borrowing as possible. He was afraid people would be upset if there was nothing in the budget for the NHS. He looked for top rate reductions and a basic rate of 25 per cent. Long term Capital Gains Tax needed sorting out - either a lower rate, or tapered reduction in liability over time. There was too much commission-generated turnover in the City: perhaps there should be a turnover tax on some concept of "excess turnover" in a portfolio. He would leave mortgage interest relief alone and put up the tax on tobacco.

Sir Peter Emery backed the Chancellor in wishing to avoid announcing NHS expenditure in the Budget. It was now or never for top rate reduction. The Butterfill proposal on elderly peoples' houses would be very popular with the middle classes. Slightly more in favour of raising the allowances than cutting tax rates.

Sir Geoffrey Johnson Smith suggested that the Chancellor should emphasise, at Budget time, how control over borrowing was leading to a slow-down in the growth of debt interest,

and hence scope for tax cuts. He would be very sorry if the Chancellor allowed the NHS rumpus to deflect him from making Budget tax cuts. He would like to see further reductions in rates of NI contributions.

Sir Rhodes Boyson would like to see top rates down and basic rate down. He thought the NHS would continue to be an albatross round the neck of Government until it was denationalised.

Michael Alison. Cutting taxes was the way to get more money for the NHS. He favoured lower tax rates rather than higher allowances. When you take people right out of liability to tax, you weaken their resistance to public expenditure. A particular CGT point was made, a propos the Yorkshire fish fryers (PJC will do a note).



P J CROPPER

FROM: MICHAEL GUNTON

DATE: 8 FEBRUARY 1988

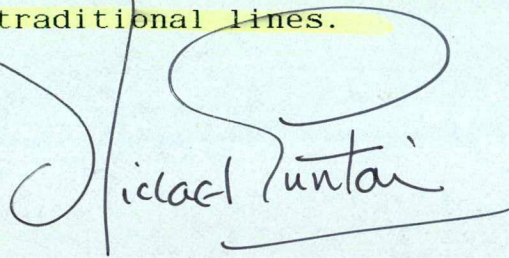
- ✓ RA - 8/2
1. Mr ALLEN
 2. CHANCELLOR

cc Mr Bush

BUDGET PHOTO FACILITIES: OPERATIONAL NOTE

I would like to get the Operational Note on the Chancellor's pre-Budget and Budget Day photographic facilities out at the end of this week in order to pre-empt a spate of inquiries.

I attach a draft for the Chancellor's approval. It follows the traditional lines.


Michael Gunton

MICHAEL GUNTON

CL

I think it's right to wait before referring to Dorneywood. ✓



DRAFT

OPERATIONAL NOTE

Not for publication

TO NEWS EDITORS AND TV NEWS PLANNERS

CHANCELLOR OF THE EXCHEQUER
PRE-BUDGET AND BUDGET DAY PHOTOGRAPHIC FACILITIES

There will be the following opportunities to take pictures of the Chancellor of the Exchequer, the Rt Hon Nigel Lawson, MP.

1. Thursday, 10 March: with Budget Box

The Chancellor will be in his Treasury office. Photographers should report to the front door of the Treasury at 8.30 am. They will be admitted if - and only if - they give their names to the Treasury by no later than Tuesday, 8 March.

Only hand held cameras, lights and wild sound recording will be allowed. Reporters are not invited and will not be allowed access.

2. Saturday, 12 March.

There will be an opportunity to photograph the Chancellor with his family. Details will be announced later.

?!
(technical term?)

3. Tuesday, 15 March: Budget morning in St James' Park

The Chancellor, Mrs Lawson and the children together with the dog Tigger will leave No.11 Downing Street at 8.50 am for a walk in St James's Park.

Following complaints from press photographers in previous years, reporters will not be allowed to participate. The police have been asked to ensure that this rule is strictly adhered to.

If Radio or TV stations want to record sound, they should seek clearance in advance from Michael Gunton 01-270-5187.

4. Tuesday, 15 March: Departure from No.11 to the House.

The Chancellor will leave No.11 Downing Street at about 3 pm, accompanied by his wife, to make his Budget Speech to the House of Commons. They will pose for pictures. No interviews will be given.

Photographers will not be allowed inside No.11. They should keep clear of the pavement between No.11 and the Chancellor's car.

PRESS OFFICE

HM TREASURY

PARLIAMENT STREET

LONDON SW1P 3AG

01-270-5238

NOTES TO EDITORS

If you wish to be represented on any or all of these occasions, please let the Treasury Press Office know as soon as possible by telephoning Mrs Joyce Hatter, 01-270-5238 or Miss Janet Bailey 01-270-5241.

Those attending will be subject to security searches by the police. Photographers and TV crews should have identification cards.

mp.
From: Nigel Forman.
8th February 1988.

To: Chancellor.

Pre-Budget Soundings of P.P.S.s.

1. At the meeting with P.P.S.s on 4th February the following points were made by those who spoke.

Andrew Mackay: Cut standard rate of income tax to 25p and top rate to 50p. Increase the duty on cigarettes and alcohol in real terms. Look favourably on Butterfill EDM.

Rob Hayward: Be radical on tax reform within a cautious fiscal and monetary framework. Go for a zero PSBR and reform of personal tax allowances. Do not be afraid to broaden the base of VAT (a point made to me in a subsequent letter) e.g. on news services. Keep in mind the desirability of raising the Christmas bonus for pensioners next time to £20.

Tom Sackville: Give priority in this Budget to the reform of capital taxation and concentrate upon the problems of succession in family businesses. Increase duties on alcohol and tobacco in real terms.

John Ward: Introduce equality of tax treatment for men and women. Consider tax relief on private health insurance for the retired. Real increase in duties on drink and tobacco. Close tax loop-hole on forestry. Set aside some of the reserves for a generous settlement of nurses' pay.

John Taylor: Do something to reform or alleviate the effects of CGT. Cut standard rate of income tax further and use the supply-side arguments to justify it. Be generous to war widows.

Andy Stewart: Allow farmers to write off for tax purposes the capital costs of their farm buildings over less than 25 years.

Michael Knowles: Be radical and bold on personal tax reform, e.g. in limiting or eliminating tax relief for mortgage interest, pensions etc. Reform personal tax allowances. Cut the standard rate of income tax and reduce the top rate to 50p. Be careful about increasing the duty on tobacco.

Patrick Ground: Cut 1p off the standard rate of income tax. 'Tackle' the higher rates and Inheritance Tax, in the latter case to encourage the diffusion of capital. Toughen up on inflation and watch out for the pound-dollar exchange rate. Go for a small Budget surplus, e.g. £2-£3 billion. Leave a large and permanent place in public spending plans for Child Benefit. Make modest increase in real terms in duties on alcohol and tobacco.

Ken Hind: Endorsed a Budget of tax reform within a cautious framework. Do something to help horticulture and green-house growers. Do something further for small and new businesses along the lines of Credited Investors in the USA. Do more financially for the regions.

David Sumberg: Have a cautious Budgetary framework this year, reduce public borrowing and build up the reserves. No reduction to 25p on standard rate of income tax this time. Perhaps do something about higher rates of income tax and remove the 'abuse' of double tax relief for mortgage interest. Leave room for a real increase in the state pension.

Jeremy Hanley: Abolish mortgage interest tax relief when cutting the higher rates of income tax (i.e. confine it to the standard rate?). Reform personal tax allowances. Improve level of earnings relief for pensioners. Support the Butterfill EDM. Abolish Stamp Duty and/or CGT on long term capital gains, i.e. over 12 months. Alleviate VAT on charities. Hasten slowly on income tax cuts, (presumably at higher rates?).

Patrick Thompson: Supported moderation in income tax cuts and removing discrimination against marriage in the tax system, e.g. on mortgage relief. Cautious real increase in duty on tobacco. Consider a reduced rate band of income tax. Deploy supply side arguments for tax cuts.

Gerald Howarth: Be bold and radical this year by getting at least to 25p on the basic rate of income tax. Reform CGT. In favour of Butterfill EDM, but would help only a few pensioners. Help war pensioners by increasing their earnings disregard. Abolish Stamp Duty because it inhibits wider share ownership. Reduce excise duty on Avgas for business aviation.

Mark Wolfson: Adopt a prudent approach to the Budget, i.e. some income tax cuts but not the whole way this time. Make the argument that lower tax rates produce higher revenues. Modest real increase in duty on alcohol and tobacco. Confine mortgage interest relief to one per house. Allow for extra bridging finance for NHS via the reserves.

Greg Knight: Budget will not be overshadowed by NHS issues. Be bold about tax reform, including for example the extension of VAT to newspapers and news-services. Unwise to go for real increase in duty on beer and tobacco. Lift the threshold on bingo duty.

Michael Fallon: Follow a strategy designed to get unemployment continuing to come down. Reduce tax at lower end of income scale, possibly via the introduction of a reduced rate band of income tax.

Roger King: Agreed with Fallon on reducing tax for the lower paid. Urged no more than a modest real increase in duty on alcohol and tobacco, since this would hit the poor disproportionately. Encourage investment in industry, e.g. by reducing the 10% car tax or the rate of VAT on company cars. Reduce duty on petrol or even eliminate it altogether when used for engine development in manufacturers' test beds. 1p off standard rate of income tax will not be enough to be noticed, so do 2p to help with containing pay settlements.

David Amess: Reduce standard rate and higher rates of income tax. Remove tax discrimination against marriage. Be cautious with real increase in tobacco tax. Introduce VAT zero rate for hospital radio broadcasting equipment.

2. If the author had spoken, he might have said: Go for radical income tax reform, make men and women separate and independent for tax purposes, and consider some form of tax relief stimulus for employee share ownership.

7N7

ps1/53A

UNCLASSIFIED



BF 16/2
prop.

FROM: A C S ALLAN
DATE: 9 February 1988

MR M GUNTON

cc Mr R I G Allen
Mr Bush

BUDGET PHOTO FACILITIES: OPERATIONAL NOTE

The Chancellor was grateful for your note of 8 February and is content with the operational note you attached.

ACSA

A C S ALLAN

FROM: P J CROPPER
DATE: 11 February 1988

PAYMASTER GENERAL

cc Chancellor
Chief Secretary
Financial Secretary
Economic Secretary
Mr Tyrie
Mr Call

PAYMASTER GENERAL'S PRE-BUDGET SOUNDINGS - 10 FEBRUARY

Present: Paymaster General
Sir Nicholas Bonsor MP
Miss Janet Fookes MP
Charles Irving MP
Dame Elaine Kellett-Bowman MP
Michael Morris MP
Irvine Patnick MP
Ian Taylor MP
Peter Cropper

Michael Morris hoped to see a 25p basic rate and reduced upper rates. He would like to see a differentiation between long term and short term gains. There was a need to revitalise PEPs. It was an anomaly that life companies were alone among savings media in being taxed. VAT could be extended to journals and newspapers; a two rate VAT would be sensible; certain luxury foods and foods that were bad for the health could be rated at 5 per cent. Tax relief for private health for pensioners was a good idea.

Sir Nicholas Bonsor hoped to see a 25p basic rate and reduced upper rates. It was important to show that lower tax rates produced higher yields. Long term capital gains should be less heavily taxed, especially on land. He would put a specific additional sum into the NHS, and was extremely concerned about the outlook on Aids. All food should be within VAT: it was a great pity the PM had committed herself against it.

Ian Taylor would like to see the PSBR in balance and was worried about domestic credit expansion. He endorsed 25p

and wanted to see lower top rates, plus progress on raising thresholds. He favoured a closer relationship between NI contribution and the cost of the health service - a "stamp". Long term capital gains should be abolished, and the IHT £90,000 raised: it should not begin to bite hard below £250,000. It would be wrong to indicate our intentions on health expenditure before completion of the review. A dual rate VAT would be sensible, at 4% say, and we should introduce certain of the non-commitment items as a start. He assumed that there would be transferable allowances in some form. People should be given tax cuts and then encouraged to join private health insurance.

Irvine Patnick reported that the Sheffield steel barons in his constituency did not want tax cuts; they wanted more expenditure on the NHS. Tax thresholds should be raised. More money was needed for urban redevelopment. He did not object to an extension of VAT, but it would be better to let it come from Europe. There should be tax relief on private health insurance.

Dame Elaine Kellett-Bowman looked forward to the time when the wife would no longer be the fiscal appendage of the husband. They should have separate free bands for CGT. The mortgage tax relief system should not encourage people to live together unmarried. Alcohol and tobacco should come out of the RPI and the tax on them raised substantially. There should be tax relief on private health insurance. Would not give a cent to the NHS until we know exactly what is happening: there are some very bad hospitals.

Miss Janet Fookes would widen the bands of the higher Income Tax rates. She presumed we were going ahead with separate taxation of husband and wife's income. She hoped to see major reform and that we would be prepared to see some losers: the reform should not build new weaknesses into the system in order to deal with problems of transition. Favoured the extension of indirect tax.



P J CROPPER

1. Alex
2. mp

CHANCELLOR

FROM: A G TYRIE

DATE: 11 FEBRUARY 1988

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Forman MP
Mr Cropper
Mr Call

CHANCELLOR'S PRE-BUDGET SOUNDINGS 10 FEBRUARY 1988

Present: Chancellor
Sir David Price DL MP
Sir Julian Ridsdale CBE MP
Sir Hector Monro MP
Sir Giles Shaw MP
Mr John Hannam MP
Rt Hon Sir Peter Blaker KCMG MP
Mr Nigel Forman MP
Mr Andrew Tyrie

Sir David Price said that policy should be kept tight and that a budget surplus would not be out of order. The opportunity should be taken to restructure the tax system, possibly towards tax credits. Something was needed for the elderly, possibly by giving more to the over-80s.

Sir Julian Ridsdale said that IHT and CGT should be reduced or abolished. He suggested graduated increases in pensions to help those who were particularly badly hit by inflation in the 1970s, if it were possible to do so.

Sir Hector Monro advocated a reduction in IHT, some dispensation for whisky, either through excise duty or through stock relief. He recommended the freezing of duty on petrol and tobacco even if the price of the freeze was a loss of a penny off the basic rate of income tax.

Sir Giles Shaw said we should act on discrimination against women in the tax system. He preferred movement on the threshold of income tax before the rate, he advocated modest rises in tobacco duty. Policy should be orientated towards avoiding further rises in interest rates.

Mr Hannam advocated nothing more than revalorization of excise duties, action on discrimination against women in the tax system, help for the lower paid and pensioners. He wanted to see action taken to reduce the size of the black economy and, EEC permitting, a rise in the threshold for VAT for small businesses.

Sir Peter Blaker advocated some gesture towards the NHS either before or in the budget, a reduction in capital taxation, with the abolition of IHT. He supported the Butterfill amendment.

RJ.
PP A G TYRIE

FROM: MARK CALL
DATE: 12 FEBRUARY 1988

CHIEF SECRETARY

cc PS/Chancellor
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Forman, MP
Mr Cropper
Mr Tyrie

CHIEF SECRETARY'S BACKBENCH SOUNDINGS: TUESDAY 9 FEBRUARY

Those Present: Ivan Lawrence, MP
James Paice, MP
Robert McCrindle, MP
William Powell, MP
William Shelton, MP

Ivan Lawrence wanted no VAT to be put on books or gaming machines. He wanted more help for charities. While he wanted a balanced Budget, this was the year to do the difficult things. Increased thresholds were a good counter to anything that might be done at the top end. If a change was to be made to MIR, he would want tax relief for private education and health. He believed the NHS issue was running out of steam, and was in favour of waiting to see what the Nurses Review Body recommended before taking action. NHS spending should be hypothecated.

Bob McCrindle was concerned that the economy was overheating. A basic rate of 25p was desirable, but he would be prepared to see this achieved in two stages if we couldn't afford it this year. The number of tax bands should be reduced, and upper rates reduced. It may not be necessary to reduce base rates by 2p in order to justify reductions in higher rates. If we did reduce higher rates, he was "close to advocating" a restriction of MIR to basic rate. He was strongly in favour of the Butterfill proposals. Overall, the Budget should do for personal taxation what the 1984 Budget did for company taxation: ie map out the changes in personal taxation which would take place over a number of years.

Bill Shelton said it was difficult to know what to expect in the Budget when there was such wide discrepancy between the estimates of the available fiscal adjustment made by various analysts. He would like the 1988 Budget to be the first of a series of Budgets which removed all IT reliefs, and achieved substantial reduction in the rates of taxation. This year, however, he would not touch MIR, even the higher rate relief. He wanted higher rates reduced to 50p, fewer tax bands, and a smaller gap between the base rate and the first higher rate. He would like a base rate of 25p if the money was available. At some stage in the Parliament, he would favour a reduction in NICs, both for the employer and the employee. Tax on cigarettes and alcohol should be raised.

William Powell wanted a balanced Budget. If the Government ran a PSBR in current circumstances it would send the wrong signals to the City and overseas. He wanted the 1988 Budget to set the course for comprehensive reform of IT during this Parliament. The Chancellor should do something on independent taxation this year. He was concerned about the employment and poverty traps, and urged action at the lower end. On higher rates, he would not favour a reduction of the 60% rate, but a significant increase in the threshold, perhaps to £100,000. The gap between the 27p and 40p rates was too great. Some reliefs, such as MIR, should be restricted to the basic rate. On capital taxation, he wanted more capital gains chargeable to IT. In the short term, capital gains should be charged at the IT marginal rate. IT higher rate bands should be made more regular, with £10,000 between bands. Employers NICs should not be reduced.

Jim Paice believed the £18,500 threshold for higher rates was set too low, and the gap between the 27p and 40p rates too great. He suggested an intermediate rate of 35p. He was "slightly more attracted" to raising thresholds, than to reducing rates. Nevertheless he would favour 25p if the money were available. NICs at the lower end should be reduced. He had an inherent dislike of tax reliefs, and these should not be extended. MIR should be restricted to the basic rate. Independent taxation was a high

priority. CGT for long term gains, should be phased out over three years. The differential between leaded and unleaded fuel should be increased. (General agreement.) On the NHS, there was a need to buy time. Thus the Government should be prepared to fund fully the Nurses Review Body award.

Mc
MARK CALL

mp

FROM: MARK CALL
DATE: 16 FEBRUARY 1988

ECONOMIC SECRETARY

cc Chancellor *e*
Chief Secretary
Financial Secretary
Paymaster General
Mr Forman, MP
Mr Cropper
Mr Tyrie

ECONOMIC SECRETARY'S BACKBENCH BUDGET SOUNDINGS: 16 FEBRUARY

Those Present:

Economic Secretary
Mr Peter Rost, MP
Mr John Watts, MP
Mr Andrew Hargreaves, MP
Mr Den Dover, MP
Mr Gary Waller, MP
Mr John Wheeler, MP
Mr Call

Peter Rost wanted more incentive for personal saving, as well as tax incentives for private health insurance. He would rather see MIR restricted and priority given to health. He wanted further measures to encourage wider share ownership such as improved share option schemes, and an equivalent of the Loi Monory. He was also for reducing personal tax rates.

John Watts advocated significant reductions in all rates of Income Tax. As lollipops, he suggested abolishing duty on bingo, and VAT on gaming machines.

Andrew Hargreaves made a plea for more help for industry. While currency stability was welcome, industry was very unhappy about instability of interest rates. He was in favour of tax relief for health insurance, preferably a state scheme. He wanted to lighten taxation of pensioners' savings, perhaps by raising thresholds. He favoured independent taxation for married women.

De Dover said this Budget represented a unique opportunity to do something radical. He advocated simplification of income tax rates to 25p/35p/45p. People were impatient for changes on independent taxation. He also wanted lower interest rates to help business.

Gary Waller said it was important to get the NHS right before putting more money in. He wanted to encourage investment in shares. He felt it would be popular to curtail the tax advantages of forestry investment. There was a wide expectation that tobacco duty would go up.

John Wheeler said he was not sure that forestry incentives should be abolished, rather it was a case of seeing which type of forestry should be encouraged. On ~~Income Tax~~ he advocated 25/³5/45. CGT should be abolished. The IHT threshold should be raised to £125,000. VED should be abolished, and the revenue collected by an increased duty on petrol. Failing that, VED on coaches should be raised substantially, to at least £150. Duty on cigarettes and tobacco should be increased dramatically. Given his advocacy of reduced taxation, he was not in favour of general tax relief for medical insurance. He was however in favour of the relief for those retiring at aged 60 or over who would have to take out individual medical insurance. Currently most people with private medical insurance receive this through a company scheme. PEPs should be forgotten, and people encouraged to buy shares direct.



MARK CALL

BUDGET SECRET - TASK FORCE LIST



Copy No. (of 10.

FROM: MARK CALL

DATE: 17 FEBRUARY 1988

CHANCELLOR *C*

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Cropper
Mr Tyrie

POST-PRAYERS DISCUSSION: 17 FEBRUARY1. BUDGET PRESENTATION

In addition to the items already on the agenda for next Monday's Overview, there would be a discussion of Budget presentation. Mr Scholar and Mr Culpin would prepare papers outlining the problems they foresaw in each of the Ministers areas of presentational responsibility. This should be done in time to allow Ministers to consider them, and come to the next Overview armed with thoughts on how to address them.

2. SEGREGATED DINING ROOMS/CANTEENS

The Chancellor said that before a final decision on this could be made the practical difficulties had to be considered in much more detail. One area of difficulty could be with the House of Commons dining facilities. The Financial Secretary would obtain advice on whether the House of Commons Members' Dining Room would be caught by the new tax, and if so, what would be the liability. Another point to consider was the position of non-profit organisations.

3. TAXATION OF COMPANY CARS

Given the view that company cars are undertaxed, the Chancellor questioned whether it would look inconsistent to increase

●
this under-taxation by giving increased Capital Allowances. Since the prime motivation for doing so was to encourage the UK car industry, it would be important to understand more fully the likely impact on the car industry. A new paper on this was expected shortly, and the matter would then be reconsidered.

4. TAX RELIEF FOR HOME INCOME PLANS

It was noted that 180 MPs had now signed John Butterfill's EDM, which proposed tax relief for rolled up interest for pensioners on low incomes with Home Income Plans. While there were attractions ^{to} ~~of~~ such a scheme, there were important tax principles to consider. The Financial Secretary would be meeting with Mr Butterfill tomorrow and would circulate a note of their discussion.

Mc
MARK CALL



INLAND REVENUE
CENTRAL DIVISION
SOMERSET HOUSE

FROM: S J McMANUS
DATE: 17 February 1988

1. MR BATTISHILL ^{17/2}.
2. CHANCELLOR

DEADLINE FOR BUDGET DECISIONS

1. At last Monday's overview meeting (15 February) you asked for a note setting out what formal decisions were still needed on Inland Revenue items and what the deadlines were.

2. A decision - or formal confirmation - is needed on the following items:

(a) Main Income Tax Rates and Allowances (BS100). A final decision is needed by Friday 26 February to allow us to keep to the timetable for the Budget recoding exercise.

cc	PPS	Mr Battishill
	Chief Secretary	Mr Isaac
	Financial Secretary	Mr Painter
	Paymaster General	Mr Calder
	Economic Secretary	Mr Beighton
	Sir P Middleton	Mr Marshall
	Sir T Burns	Mr McManus
	Sir G Littler	PS/IR
	Mr Anson	Mr Unwin } Customs & Excise
	Sir A Wilson	Mr Knox }
	Mr Byatt	
	Mr Scholar	
	Mr Sedgewick	
	Mr Odling-Smee	
	Mr Culpin	
	Miss Sinclair	
	Mr Riley	
	Miss Evans	
	Mr Cropper	
	Mr Tyrie	
	Mr Call	

(b) A decision on whether to retain APA for incapacitated wives (BS101 and 102) is needed as soon as possible so that any necessary instructions can be sent to Counsel - Mr McIntyre's submission of 16 February.

(c) Fringe Benefits (BS105, 106, 108 and 109). Final confirmation of the decisions on car scales (and the Pl1D threshold) are needed by 26 February to fit in with the Budget recoding exercise. A submission will be coming forward on 17 February examining the effect of increasing the capital allowances limit for new expensive cars to £10,000 and it would be helpful to have a decision on what the limit should be as soon as possible after that (though a change will be simple to legislate for). A further note on directors' dining rooms (with which is linked removal of the luncheon vouchers concession) will be coming forward on 18 February and early decisions will be needed to enable us to instruct Counsel. Finally, there is a need to confirm as soon as possible legislation to exempt car parking on "own premises".

(d) Mortgage Interest Relief Ceiling (BS113). You have confirmed (Mr Taylor's note of 15 February) that you do not expect to raise the ceiling from £30,000. Accordingly we have not instructed Counsel to draft an alternative resolution on a provisional basis, which for the reasons given in Mr Johns' note of 12 February would have been very difficult. This means that were a decision now taken to change the ceiling we would almost certainly have to change the transitional arrangements proposed for the residence basis in order to avoid the need for a resolution.

(e) Maintenance and Covenants (BS150). Mr Stewart's note of 17 February seeks decisions on the transitional provisions relating to existing maintenance arrangements. Decisions are needed as soon as possible to allow drafting to proceed.

(f) Additional Rate on Trusts (BS120). Mr Corlett's and Mr Stewart's note of 12 February are to be discussed at the Financial Secretary's meeting on 19 February. Abolition of the additional rate would involve some tricky consequential legislation so that an early decision would be helpful.

(g) Link Between Discretionary and All Employee Share Schemes (BS122). The Financial Secretary is having a meeting to discuss this on 19 February. In his note of 12 February Mr Farmer expresses doubt about whether rules could be worked out and properly drafted in time for this year's Bill and you have of course raised the possibility (Mr Taylor's note of 16 February) of an announcement this year foreshadowing legislation in 1989.

(h) BES (BS203). The Financial Secretary is holding a meeting on Thursday 18 February to consider the details of the extension of full BES to the private rented sector. A decision is also needed on the linked question of the level at which to set the ceiling on the amount of BES finance which can be raised by a company. It would be helpful to have decisions at next Monday's Overview meeting to allow drafting to proceed.

(i) Corporation Tax Rates (BS201 & 202). We have instructed Counsel on the assumption that the main CT rate will be set in advance for the 1988 financial year and remain at 35% and we have indicated that the small companies rate of CT will be reduced in line with the basic rate. It would be helpful to have formal confirmation of these decisions at next Monday's Overview meeting.

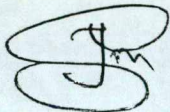
(j) Employee Priority Shares In Public Offer (BS112). Mr Farmer's note of 12 February proposes a slight widening of the scope of the provision on which it would be helpful to have a decision by the end of this week if possible.

(k) Tax Appeals: General Commissioners For Northern Ireland (BS450). Decisions are needed on Mr Willis' note of 5 February to allow work on the draft legislation to continue.

(l) Tax Appeals: Place of Hearing By General Commissioners (BS451). A submission reporting the outcome of consultation is coming forward today and we would like decisions by 26 February if possible to enable the legislation to be altered in time to be included in the Bill as published.

(m) Occupational Pensions: Accelerated Accrual of Pension Benefits (BS152). A very early decision is needed on Mr Kuczys' submission of 16 February if there is to be legislation in 1988.

3. In short, it would be helpful to have decisions as soon as possible. In some cases just to confirm the instructions we have already given Counsel, in others to allow drafting to proceed or in two cases because they affect the Budget recoding exercise (ie items 2(a) and (c) on which decisions are needed no later than Friday 26 February). You might like to use this note as a checklist at next Monday's overview.



S J McMANUS

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overview?
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COPY NO. | OF 34.

FROM: MISS J C SIMPSON

DATE: 17 FEBRUARY 1988

1. MR CULPIN

2. CHANCELLOR OF THE EXCHEQUER

cc PPS	Mr R I G Allen
CST	Mr Pickford
FST	Mr Hudson
PMG	Miss C Evans
EST	Mr Cropper
Sir P Middleton	Mr Tyrie
Sir T Burns	Mr Call
Sir G Littler	
Mr Anson	Mr Battishill-IR
Sir A Wilson	Mr Isaac - IR
Mr Byatt	Mr Painter -IR
Mr Scholar	Mr Beighton -IR
Mr Sedgwick	Mr McManus -IR
Mr Odling-Smee	
Miss Sinclair	Mr Unwin - C&E
Mr Riley	Mr Knox - C&E
	Mr P R H Allen -C&E

This is a draft.
We shd be grateful
for contributions from others.

Re 17/2
BUDGET SECRET

BUDGET: PACKAGING

As Mr Culpin mentioned this morning, we have been giving some thought to how the various Budget measures could be 'packaged' into different themes, separately from the structure needed for the Budget Statement itself.

... 2. A list of the thoughts we have had so far is attached. There is obviously some considerable overlap between the various categories. The categories themselves also vary: some are clearly related to changes in the tax system, while others attempt to address rather wider constituencies, or particular Government themes. In most cases measures have been grouped where they can be presented in the most positive light, although some will inevitably turn up in more negative contexts.

J

MISS J C SIMPSON

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ANNEX

BUDGET PACKAGES

1. Reform

- Independent taxation
- Higher rate restructuring
- Maintenance and covenants
- Mortgages - residence basis
- CGT package *- home improvement loans*
- [Keith]

2. Reducing burdens

- Income tax rates and allowances
- CGT package
- IHT changes
- North Sea changes

3. Simplification

- Independent taxation
- Maintenance and covenants
- Higher rates reform
- Minor personal allowances
- Lloyd's
- Top slicing relief

4. Removal of unjustified tax breaks

- Car benefits etc
- Forestry
- Home improvement reliefs
- Additional personal allowances for cohabiting couples
- ~~Section 482~~
- Top slicing
- Keith
- Possibly:
- ~~Business entertainment~~
- ~~Ceiling on BES~~

~~Minor personal allowances~~

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BUDGET SECRET

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MR simplification. This (like the CGT reliefs) reduces an injustice, however. It is a useful separate category, over & above reform. I value that a lot. Subject of reform.

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5. Businesses

CT rates and rebasing

Importers' details

Business entertainment

~~CGT package~~

[Capital Duty]

Building societies: incorporation

Employee share schemes

Lloyd's

Section 482

VED/DERV rates

6. Small businesses

BES

VAT threshold

Small companies' CT rate

IHT package

CGT retirement relief

7. Supply side measures

Private rented housing

Importers' details

Employee share schemes

CGT retirement relief

IHT

8. Housing

BES for building for private rent

Assured tenancies

Mortgages - residence basis

Mortgages - home improvement relief

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9. Ownership/responsibility

PEPs (increase in limit)

CGT retirement relief

IHT

Employee share schemes

Payroll giving

Plus effects of previous years' measures coming through:

PEPs picking up speed *(at rate of 1.8.88)*

personal pensions from 1.8.88

Fowler reforms wef 1.4.88

10. Action for jobs

Private rented housing - increased labour mobility

Reduced IT - increased incentives

h BES - better targetting towards new/small firms

11. Green measures

Forestry

Unleaded petrol

VED rates for large lorries

12. Landed interest

Farmers

Forestry (especially increased grants aspects)

Milk rollover

CGT

13. Health - prevention rather than cure

Beer over-revalorised

Cigarettes over-revalorised

Unleaded petrol differential

Coolers and minimum beer duty

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Prep

FROM: A C S ALLAN
DATE: 18 February 1988

MISS SIMPSON

- cc PPS
- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Sir T Burns
- Sir G Littler
- Mr Anson
- Sir A Wilson
- Mr Byatt
- Mr Scholar
- Mr Culpin
- Mr Sedgwick
- Mr OdlingSmee
- Miss Sinclair
- Mr Riley
- Mr R I G Allen
- Mr Pickford
- Mr Hudson
- Miss C Evans
- Mr Cropper
- Mr Tyrie
- Mr Call

- Mr Battishill IR
- Mr Isaac IR
- Mr Painter IR
- Mr Beighton IR
- Mr McManus IR

- Mr Unwin C&E
- Mr Knox C&E
- MR P R H Allen C&E

BUDGET: PACKAGING

The Chancellor was grateful for your minute of 17 February. He would welcome comments and suggestions for alternative packaging from copy recipients.

ACSA

A C S ALLAN



FROM: S P JUDGE
DATE: 18 February 1988

ppj

W.P.S.

PPS

BUDGET PRESENTATION

The Paymaster General has seen the minutes of Prayers yesterday.

2. He regrets that he is unable to attend Prayers tomorrow, as he is on a CCO trip to Scotland. This, together with his habitual Monday morning engagements at CCO/No 10, ^{will} rob him of the chance of discussing presentation with officials before the next Overview. But he will of course think about the Scholar/Culpin paper over the weekend.

SPJ

S P JUDGE
Private Secretary

RESTRICTED



PPS

FROM: A C S ALLAN
DATE: 18 February 1988

MISS SIMPSON

cc **PPS**
 Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Sir T Burns
 Sir G Littler
 Mr Anson
 Sir A Wilson
 Mr Byatt
 Mr Scholar
 Mr Culpin
 Mr Sedgwick
 Mr OdlingSmee
 Miss Sinclair
 Mr Riley
 Mr R I G Allen
 Mr Pickford
 Mr Hudson
 Miss C Evans
 Mr Cropper
 Mr Tyrie
 Mr Call

 Mr Battishill IR
 Mr Isaac IR
 Mr Painter IR
 Mr Beighton IR
 Mr McManus IR

 Mr Unwin C&E
 Mr Knox C&E
 MR P R H Allen C&E

BUDGET: PACKAGING

The Chancellor was grateful for your minute of 17 February. He would welcome comments and suggestions for alternative packaging from copy recipients.

ACSA

A C S ALLAN

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Copy No. 1 of 32
FROM: ROBERT CULPIN
DATE: 19 February 1988

CHANCELLOR

cc Principal Private Secretary
Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Scholar
Mr Sedgwick
Mr Odling-Smee

Mr RIG Allen
Mr Pickford
Miss Sinclair
Mr Riley
Miss Simpson
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call

Mr Battishill) Inland
Mr Isaac) Revenue
Mr Painter)

Mr Unwin) Customs & Excise
Mr Knox)

BUDGET PRESENTATION

You asked me to circulate further material, grouped by Ministers' responsibilities for presentation. I attach:

- (a) a list of questions by FP;
(b) a skeleton of the main tax brief by EB.

They deliberately overlap.

2. The questionnaire may look quite long, but it is by no means definitive. It is only when we work up the briefs, the speech and so on that we realise how many questions we can't answer. Still, there is enough here to be getting on with.

3. The skeleton brief is no more than that. It is there to get us started. It groups measures in much the same clusters as the Budget Speech, but puts them in (rough) order of importance. It does not try to cover every measure or every line of questioning, only the most important or difficult.

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4. Papers like this are bound to concentrate attention, rightly, on awkward questions. But what we really want is Ministers' guidance on how best to present our positive case.

Rc

ROBERT CULPIN

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BUDGET PRESENTATION: BRIEFING QUESTIONS

CHIEF SECRETARY

Cars and other perks

1. Why are you reneging on 1988-89 car scales announced last year?
2. Exactly how will the changes be made - will people feel the effect at the same time as the income tax cuts? How many losers?
3. Why not go all the way and tax cars fully?
4. Won't the package cripple the car industry?
5. Why tax luncheon vouchers but not canteens?
6. Why increase P11D threshold only to freeze it - why not index it or abolish altogether?
7. If you're going to tax cars fully why are some perks still exempt from tax?

MIR: Home Improvement Loans

1. Won't abolition of relief on home improvement loans lead to sharp fall in restoration of derelict housing stock? How is this consistent with your housing policy?
2. Won't many people get round this by taking out loans before 6 April? Why not make change effective from Budget Day?
3. What do you have to do before 6 April to qualify for relief under existing rules? How will Building Societies know? Is there a MIRAS complication?
4. Isn't this an attack on the poor and first time buyers who buy inferior housing stock?
5. How will landlords be affected?

Forestry

1. What does exemption mean - why not keep forestry within tax system without special reliefs?
2. How do you justify the fact that the net effect of the tax and spending measures is more support for forestry? Why give any Exchequer subsidy to forestry?
3. Won't forestry still be an attractive tax shelter?
4. How will the change affect the balance of conifers and broad leaved trees?

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QUESTIONS

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5. Will the change crack down on beneficiaries of the existing regime?

Maintenance and Covenants

1. Won't deserted unmarried mothers get lower maintenance awards if fathers lose tax relief? Why no compensation?
2. Why are you discriminating against unmarried fathers?
3. If payments tax free why should payer get any relief?
4. What will be the tax position of a maintenance settlement that is re-opened?
5. If maintenance payments are going to be tax free to future recipients, why are you taxing existing recipients?
6. Can a man with two ex-wives get double tax relief on maintenance payments?
7. If Budget about revenue not expenditure, why are there spending measures on students and forestry?
8. If this is a simplification why does the Exchequer gain?
9. For how long will two-tier student grant system run?
10. How will the change affect:
 - (a) student already on course whose parent was planning to covenant?
 - (b) parent who pays full contribution, but student gets no grant?
 - (c) student currently benefitting from covenant but not on approved course?
 - (d) parents covenanting/planning to covenant sums above mandatory grant level?
11. Why spend money to compensate students but not to help lone parents?
12. Has Government always seen relief for covenants as integral part of student support? Then why penalise existing students without covenants - they won't benefit from grant improvements?
13. Should we take credit for the fact that high earners lose on maintenance and covenants?

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Minor Allowances: MIR/CGT Relief for Dependent Relatives

1. How many losers - who are they? Why no compensation?
2. Why are you penalising dependent relatives by removing minor allowances, as well as MIR and CGT relief on property bought for dependent relative/divorced/separated spouses?

Top Slicing

1. What is it, what is wrong with it?
2. Surely steep jump from 25p to 40p - steeper than in 1979 - means case for top-slicing remains?
3. What about the other top-slicing reliefs? Why not abolish them, particularly life assurance top-slicing?

FINANCIAL SECRETARY

Income Tax

1. Why keep a higher rate at all?
2. To what extent will cuts in higher rates pay for themselves and over what period?
3. Why not restrict allowances to basic rate to balance cuts in higher rates?
4. Why no upper limit on pension contributions?
5. Is not 25 per cent to 40 per cent a large jump. (15 percentage points compared with 7 percentage points in 1978-79.) If you go down to 20 per cent, it will be larger still, does this matter?
6. Why are you tolerating such a big shift between progressive IT and regressive NICs?
7. Why have we still got such an odd schedule of marginal rates?
8. Why no relief for private health care?

Independent Taxation

1. Why keep married man's allowance (renamed) when everyone agrees it should go?
2. Will the MCA be kept at half the single allowance?

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3. Why aren't you even phasing it out for those on higher incomes who had previously opted to give it up?
4. Why not doing anything for the one-earner couples you wanted to help?
5. Why not introduce partially transferable allowances?
6. Why only one CGT residence exemption per couple?
7. How many people will be affected by new APA rules? Why no compensation?
8. Why have you dropped idea of converting APA into benefit? Will it take Revenue snoopers to police new rules?
9. How do you justify massive revenue and staff cost of a measure which does so little and affects so few?

Lloyd's

1. Why not meet Lloyd's proposals on the Special Reserve Fund?
2. Is the concession on early leavers a further handout to Lloyd's?

PAYMASTER GENERAL

Corporation Tax

1. Why no cut in CT rate when revenues highest ever in real terms?
2. Aren't taxes on business paying for personal tax cuts?
3. Why nothing to redress CT bias against investment?

BES

1. Why do you need a ceiling? How will it work?
2. Do we say the BES measures will be revenue neutral - what does this assume about success of measure?
3. Why [no] special treatment for shipping?
4. Will this ceiling hamper business start-ups?

Private Rented Sector

1. Why subsidise both renting and home ownership?
2. Why are you using it for private rented sector when previously bricks-and-mortar investments had been excluded?

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3. Will the private rented sector schemes crowd out other BES schemes?
4. What is the evidence that the scheme will help labour mobility?
5. What is to stop the scheme being used for expensive Mayfair flats or rich exploiting landlords?
6. Why have a higher limit for housing?
7. What will this do for homeless?
8. Why this contrived measure rather than straightforward grants?
9. Cost effective? How many houses - cost per house?
10. Does this show deregulation/market solution won't work without subsidy?

Business Entertainment

1. Won't the loss of relief inhibit export effort?
2. Why different start date for the VAT and CT measures?

Section 482

1. Why make such a major change without consultation?
2. Why not wait for the European Court's decision - won't the proposal prejudice the outcome?
3. Won't the new rules stop companies incorporating in the UK?
4. Will UK incorporated companies now be subject to a two tier capital gains charge - on shareholders and on the company - because they have to liquidate in order to migrate?

ESOPs

1. Why not meet representations calling for exclusion of management buyouts from the avoidance provisions?
2. Why apply the new provisions to shares acquired before changes were announced - is this not retrospective?

CGT Retirement Relief

1. Isn't the increase much too generous? What evidence that present ceiling deters enterprise?
2. Why not extend retirement relief to landlords?

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Mortgage Interest Relief: Residence Basis

1. Aren't you breaking manifesto pledge?
2. Won't buying a flat now be impossible for many in S E England who would otherwise have shared? Doesn't this run counter to your policy of improving labour mobility?
3. What does one have to do by 6 April/1 August to qualify for tax relief on home improvement loan/shared mortgage?
4. Why different dates for abolishing relief on home improvement loans and introduction of residence basis?
5. How will relief be shared within couples or between sharers?
6. Why not increase ceiling to help first time buyers?

Importers' Details

1. What do companies think - can they opt out? IBM claim that disclosure of importers' details could increase their UK costs and disclose information of strategic importance to competitors.

ECONOMIC SECRETARY

Excise Duties

1. Will concession for unleaded petrol eventually be removed (as in Germany) and, if so, why should people switch?
2. Why no increase in duty on spirits?
3. Why not higher increases in alcohol/tobacco duties on health grounds?
4. Why no extension of duty deferment period?
5. VED frozen for all time?
6. Why not abolish VED and raise fuel duties?
7. Why charge less VED on coaches than on cars?
8. Why no action to help UK commercial operators who pay the highest motoring taxes in EC?
9. Why not abolish car tax?

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Keith etc

1. Why not extend legal professional privilege as recommended by Keith?
2. Why such slow progress in implementing Keith?
3. 'Unnamed taxpayer' provisions - a snoopers' Charter designed to allow Revenue fishing expeditions?

Capital Gains Tax

1. What about 1986 commitment not to change taxation of savings without Green Paper?
2. Is rebasing a hand out to the rich?
3. Why exempt real gains before 1982?
4. Aren't you going to create turmoil in markets before 6 April - why not make changes from Budget Day?
5. Why not abolish CGT altogether? Failing that why not distinguish between short-term and long-term gains?
6. If capital gains are like income why index one but not the other?
7. And why keep the £6,600 exemption? Is it frozen for all time?
8. If capital gains to be taxed at income tax rates, why not abolish CGT?
9. Why raise CGT rate for some, causing them to lock-in to existing investments?
10. If capital gains are like income, why can't losses be charged against ordinary income?
11. Why keep indexation if inflation to decline and eg stock relief abolished?
12. What have you assumed about forestalling before 6 April and before introduction of independent taxation in 1990?
13. If increasing effective CGT rate, why not permit wider rollover reliefs for eg shares?
14. Why not have a flat rate withholding tax on savings?
15. Does alignment of rates mean that you no longer need low coupon gilts?
16. Isn't this the third time you've said capital taxes are on sustainable basis?
17. Why no tougher policing of CGT - how many gains go unassessed?

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Building Societies

1. Why give generous CGT concession?

Inheritance Tax

1. Can we expect the burden of inheritance tax to be cut every year?
2. Why cut IHT when revenue could be more effectively used to stimulate incentives/enterprise by cutting income tax?
3. Is the idea now to keep the IHT rate in line with the top income tax rate?
4. Allowing for business relief, inheritance tax is only [20 per cent] where a business is passed on. How does this compare with other countries' rates, allowing for their consanguinity rules?
5. Why should main benefit of IHT changes go to biggest estates?
6. Your main concern in lightening the burden of IHT seems to be to avoid taxing estates in which the principal asset is the family home. How do you justify the fact that house purchase gets tax relief, rates are about to be abolished, house disposal is free of CGT and now, it seems, of IHT?
7. Will the burden be lower for all than Healey revalorised?

Oil

1. The Southern Basin restructuring will hit existing post 1982 fields reducing profitability in some cases - why rob Peter to pay Paul?
2. Fields developed in expectation of current regime now hit retrospectively?
3. Why no help for incremental investment important for optimal exploitation of UK continental shelf?

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General

1. How does the Budget affect total tax expenditures?
2. What proportion of cost of Budget is going to higher rate taxpayers? How is it justified when their incomes are already rising most rapidly?
3. What evidence is there that massive cuts in top tax rates will boost incentives?
4. Aren't the incentive effects of tax cuts most powerful at the lower end of the income distribution? Burden higher than 78-79?
5. Why does it take the Revenue so long to collect the revenue from capital gains tax and higher rates of income tax? How do you defend it?
6. Are the start dates for all these reforms consistent and defensible?

Other

1. Why no increase in stamp duty threshold?
2. Why no spending measures on health?
3. Why no VAT measures to anticipate/pre-empt EC judgements?
4. Why nothing to bolster flagging enthusiasm for PEPs?
5. Does negligible cost of increase in payroll giving threshold imply low take up?
6. Why not change tax treatment of disaster funds?
7. Are the new Customs' search powers an infringement of women's rights?
8. When are you going to act on the life assurance review?

NICs

1. Why have you missed golden opportunity to abolish UEL?
2. Why not integrate income tax and NICs entirely?
3. Why no action to reduce adverse effect on incentives/employment of NIC steps?

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** MS Jones Budget spec*

MAIN TAX BRIEF: SKELETON

1. GENERAL RATIONALE

- Tax cuts go hand in hand with successful economy. Previous reforms have contributed to underlying strength of economy now, ~~giving unparalleled opportunity for reform~~. Tax reform in this Budget will further strengthen economy.
- Corporate taxes radically reformed. Results clearly show benefits of new structure.
- So this Budget concentrates on reforming income tax and capital taxes.

Themes and objectives:

- Reducing burden of tax encourages economic efficiency and improves incentives.

- : income tax basic rate cut to 25 per cent and allowances raised;
- : all higher rates above 40 per cent abolished;

Reforms mean no tax rate ~~(except PRT)~~ above 40 per cent.

- Aim to make system fairer, in particular fair treatment for women.
 - : independent taxation
 - : separate CGT exemption for wives

- Simplifying tax system benefits taxpayer.
 - : inheritance tax rates cut from 4 to 1;
 - : maintenance and covenants.

Defensive

- Why all changes benefit rich? (And other questions on distribution).
- Why overall burden of taxation/NICs not cut more?
- How is system simpler when [] more staff needed?

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SKELETON
BRIEF

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- Wasted opportunity for more radical reform?
- Why no tax measures for NHS? (eg private insurance relief, health stamp)?

2. INDEPENDENT TAXATION AND MARRIAGE (FST)

Main measures:

- Independent taxation for husband and wife of all income (including investment income, capital gains).
- Married couple's allowance.
- Individual CGT exemptions for husband and wife.
- Mortgage relief restricted to residence.

Rationale:

- Present tax system, dating from 1805, out-moded - not consistent with facts of life at end of twentieth century. Also imposes penalties on marriage.
- Reforms give real privacy and independence to women.
- New system recognises marriage through married couples allowance.
- Reforms all in place by 1990.
- Removes tax penalties on marriage - restricting mortgage relief to residence; one APA for unmarried couples.

Defensives:

- Why not go to transferable allowances?
- Why no half-way house?
- Why benefit rich by reducing marginal rates on investment income and giving MCA to people who previously opted for independent assessment?

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- Why not use money to improve child benefits?
- Why no help for one earner couples?
- What about manifesto pledge on mortgage relief?
- Why hurt single parent families by restricting APA?
- Won't changes require IR to snoop on couples?

3. INCOME TAX (FST/CST)

Main measures:

- only two rates of tax, 25p and 40p.
- Main allowances double indexed.
- Unjustified "perks" tackled: forestry, car benefits, mortgage relief for home improvements, top slicing relief, [directors' dining rooms].
- Simplifications to system of maintenance and covenants.
- [- Improved administration of tax system: Keith, including unnamed persons.]

Rationale:

- Cutting marginal rates boosts incentives and enterprise; makes tax system more neutral by reducing value of allowances.
- Raising allowances takes X million out of tax.
- Getting rid of unjustified "perks" makes system fairer for all taxpayers, and helps finance lower marginal rates.
- System greatly simplified by slashing number of higher tax rates from 5 to 1, and changing treatment of maintenance and covenants.

Defensive:

- Only the rich benefit?

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- Why not end mortgage relief altogether, or restrict to basic rate?
- Why no assault on pensions?
- Maintenance and covenants only reformed to increase tax take?
- Ending home loan improvement relief inconsistent with energy conservation?
- Onslaught on motorist/effect on British car industry?
- Why continue to subsidise forestry at all?

4. CAPITAL TAXES (EST)

Main measures:

- CGT: abolished on all gains before 1982.
 - : Aligned with income tax.
 - : Retirement relief increased.
- Inheritance tax exemption limit increased to £107,000 and single rate of tax at 40 per cent.

Rationale:

- Clearly unfair to tax paper gains. Now not taxed at all.
- Taxing gains in the same way as income makes tax system more neutral - taxpayers' behaviour will no longer be dominated by vagaries of tax system.
- Extending retirement relief gives more help for small businesses.
- Reform of inheritance tax reduces burden on small estates, including small family businesses, and achieves massive simplification of system.

Defensives:

- More help for the rich: rebasing completely frees them from CGT, inheritance tax changes increase wealth inequality.

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- Unfair on taxpayers to change CGT regime without warning?
- Why no Green Paper as promised?
- Why not make IHT into true inheritance tax?

5. SPENDING TAXES

(EST)

Main measures:

- No change to VAT rate.
- Duties generally revalorised, but restructuring in favour of low alcohol drinks, pipe tobacco.
- Wider differential for unleaded petrol.

Rationale:

- Changes to alcoholic drinks regime aimed at curbing alcohol abuse.
- [- Additional health benefits from switch in tobacco regime.] ? v small.
- Environment helped by differential in favour of unleaded petrol and extra VED on large lorries.
- Shift from VED to petrol taxes road users more effectively.

Defensives:

- Why no increase in duties on spirits, fortified wines?
- Why not tax tobacco more heavily?
- VAT coverage being widened by backdoor (infraction proceedings, tax approximation).

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6. BUSINESS TAXES

(PMG)

Main measures:

- Corporation tax rate unchanged.
- North Sea royalties abolished (southern basin relief).
- Some tidying up: building societies incorporation, Lloyd's.
- Supply side measures: disclosure of importers' details, employee share schemes, private renting.
- Removing anomalies (business entertainment) and blocking potential abuse (section 482).
- More help for small businesses: BES, VAT threshold raised.

Rationale:

- No change to main corporation tax regime. Stability important for companies. Corporation tax already lowest in [world]. Worth of 1984 reforms proved by business thriving.
- Useful minor simplifications.
- Extra supply side measures which encourage enterprise.
- Bring companies' residence into line with other countries, but at the same time must protect tax revenue from abuse (section 482).

[- Oil.]

Defensives:

- Why no important measures for companies?
- Tax burden on companies too high?
- No encouragement for enterprise? (Why restrict BES?)
- Charter for property speculators?
- Why no more supply side measures?

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BUDGET SECRET: TASK FORCE LIST

COPY No SPJ/11/2 OF 17



FROM: S P JUDGE

DATE: 19 February 1988

MISS SINCLAIR

cc Mr A P Hudson
Mr R I G Allen
Mr Pickford
Miss Hay
Mr Michie
Miss G C Evans

Miss Simpson
Mr Call
Mr Cropper
Mr Tyrie
PS/Inland Revenue
Mr Corlett - IR
Mr Walker - IR

BUDGET PRESENTATION

Thank you for your (BLO) note of yesterday - not to all.

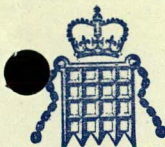
2. We have now set up two meetings on publicity. One, on **payroll giving**, is at 4.15pm on Wednesday, 2 March. The present cast list is Mr R I G Allen, Mrs Wiseman, Mr Cropper and Mr Corlett. In addition to the doubling of the limit to £240, this meeting will discuss more general publicity issues, and co-ordination with the Home Office. I would be grateful if FP could, at the end of next week, copy the latest draft of HH3 to us and to those attending the meeting.

3. The Paymaster's main presentation meeting will be at 5.00pm on Tuesday, 1 March, featuring Miss Simpson, Miss Hay, Mr Michie, Mr Betenson, Mr Tyrie, Mr Cropper and Mr Walker (IR). Mr Walker may bring a couple of extra Revenue people along to cover particularly tricky issues. I would be grateful if FP could, as you suggested, copy round the latest draft of the relevant Budget briefs in time for this meeting. Of course LG only need to see FF5 and FF7, which we would cover first. In addition to the list attached to your minute, I think the Paymaster should see EE1, and possibly E1.

4. I apologise for making all this appear complicated. But I hope that this procedure will minimise the extra preparation needed for the Paymaster's meetings. I hope Mrs Wiseman and Mr Betenson can see the relevant briefs; some censorship (eg on costings) may be necessary.

S P JUDGE
Private Secretary

BUDGET SECRET - TASK FORCE LIST



H.M. CUSTOMS AND EXCISE

NEW KING'S BEAM HOUSE
22 UPPER GROUND
LONDON SE1 9PJ

Telephone 01-620 1313 Ext. 5023

Copy 1 of 33

FROM: P R H ALLEN

DATE: 23 February 1988

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

CHANCELLOR

Ch
Would change with
1 1/2 read

PAH

I agree with
Mr Allen. I have
written a few notes
on
Miss Simpson's note.

BUDGET : PACKAGING

1. Mr Allan's note of 18 February asked for comments on Miss Simpson's note of 17 February about presentational packages for Budget measures.

Internal circulation: CPS, Mr Knox, Mr Jefferson Smith, Ms French

2. Miss Simpson's note proposed a 'health' package consisting of various of the alcoholic drinks duty changes, the cigarette duty increase and the unleaded petrol change. We have reservations about this - particularly if the present lead option is adopted. It is difficult to present the alcohol changes as tackling health or social issues when the duties on spirits and fortified wines are unchanged. The increases in beer and cider duty, together with the structural changes - although a step in the right direction - will not be without their critics, notably those who argue that steep increases in duty penalise the responsible majority of drinkers for the sake of the irresponsible minority. Similarly, straight revalorisation of the cigarette duty will be seen as a less than fulsome response to the health arguments put forward by the BMA and others. The only change which can genuinely be presented as benefiting the nation's health is the increased unleaded petrol differential (though even here the 'green' argument probably carries more weight).

3. All in all, we feel it would be unwise to stress health arguments in presenting the excise duty changes. The latter will, in any case, be overshadowed by changes on the direct tax side and we would recommend a low key presentation of indirect taxes, relating them to the overall Budget strategy and emphasising the balance achieved between revenue, RPI, industry, employment and health considerations.

PA.

P R H ALLEN
DPU

From: Nigel Forman
24th February 1988.

Nigel Forman

✓ 25/2/88

To: Chancellor.

Operation Do Them Down.

1. Like you, I am glad that this was successful and I fervently hope that this will prove to be the last time that we have to go through this rigmarole. Otherwise it will be difficult to face our wives
2. May I suggest that a brief **note** of thanks from you to all who were involved as volunteers would be much appreciated and that it should be sent this week while the experience is still vivid in their minds. You will know what you want to say, so unless you particularly want me to provide you with a draft, I will leave it to you.
3. The volunteers were:
David Shaw
Charles Goodson-Wickes
Matthew Carrington
Ian Taylor
John Bowis
Tim Devlin
Andrew Mitchell
Michael Jack
Quentin Davies.
4. The others involved were, of course, the four Treasury P.P.S.s

7/7



Inland Revenue

Policy Division
Somerset House

Copy No 2 of 18.

FROM: I R SPENCE
25 FEBRUARY 1988

FINANCIAL SECRETARY

LLOYD'S - BUDGET PRESENTATION

1. We are discussing this tomorrow. You might find it helpful to have now:

a. the draft Budget Day press releases on RIC leavers and administrative reforms;

b. our first shot at Budget briefing.

2. We think it would probably be desirable to have a full explanation of the administrative reforms in the Budget Day press notice. Otherwise we will have anxious speculation from Lloyd's members and agents, which could set the exercise off on the wrong foot. RIC leavers, of course, is not a sensitive issue. The press notice on this is long simply because the issue is so complex that anything shorter risks being incomprehensible.

cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
Mrs Lomax
Mr Culpin
Ms Sinclair
Mr Ilett
Mr Cropper

Mr Battishill
Mr Painter
Mr McGivern
Mr Spence
Mr Skinner
Mr R Miller
Miss McFarlane
PS/IR
Mr A Walker

SRF

3. We are assuming you will not want anything to be said in the Budget Day publicity on this. It is possible that a Backbencher will ask in the Budget Debate why Lloyd's representations for improvements have been rejected. So we have put something in the Budget briefing on SRF (last section).

Lloyd's capital gains

4. The administrative reforms press notice says that Lloyd's CG treatment will not be changed. One of the points we can discuss at your meeting is when Lloyd's should be given the message that the present CG treatment is not a guaranteed permanency and that their use/abuse of indexation will be monitored. Another - related - question is whether the point should be made in the House, and if so when. If the SRF point is raised in the Budget Debates, Ministers could use this as the occasion for delivering the message on CG as well. I have put something into the Budget briefing (last item) against this eventuality.

Contacts with Lloyd's?

5. If you agree, we will invite Lloyd's in to see us on Budget Day. We will want to do this in any event to discuss detailed points on the administrative reform package. But we will clearly have to cover the no-change points - SRF and CG - as well, and we can clear the line we should take on both issues at tomorrow's meeting.

6. Another question is whether you want to call in Lloyd's for a meeting with you (presumably not on Budget Day, in any event) or whether you wait to see if they ask for a meeting.



I R SPENCE

LLOYD'S - SUMMARY BRIEF

Factual(i) Finance Bill legislation on:

- Lloyd's reinsurance to close - relief for leavers. Modification of 1987 reinsurance to close (RIC) legislation to give relief to members who leave syndicates;
- Reform of administrative arrangements for taxing Lloyd's members.

(ii) No change in:

- Lloyd's Special Reserve Fund (SRF);
- basis for taxing syndicate capital gains - will continue to be taxed under CG code (and will not be subject to income tax as trading income).

(iii) Exchequer Effects. RIC leavers relief will have Exchequer cost - unquantifiable, but probably small. Administrative reforms - no significant cost/yield.

Positive

(i) Objective - ensure Lloyd's taxed effectively but fairly, in a way which reflects Lloyd's special features. (Same objective as 1987 RIC legislation). So

- modification of RIC legislation to take account of special position of those who leave syndicates;
- administrative reforms simplify existing special arrangements - reduce administrative costs for Lloyd's and Revenue.
- retention of SRF - continues special relief for Lloyd's members in meeting future underwriting losses;
- retention of present CG treatment - continue to tax syndicate gains under CG code for individuals, and not as trading income (as for other financial traders).

(ii) Extensive consultation pre-Budget with Lloyd's. Further consultation on details of administrative reforms.

(iii) RIC leavers relief meets Lloyd's only complaint about RIC legislation;

(iv) Reform of administrative arrangements will benefit Lloyd's as well as the Revenue. Lloyd's support objectives of changes.

LLOYD'S - RIC LEAVERS

Inland Revenue issuing press notice on Budget DayFactual

(i) Lloyd's RIC is payment of insurance premiums by members of Lloyd's syndicates (in order to close year of account) to members of syndicate for following year who assume outstanding liabilities. About 90% of members continue in the syndicate, about 10% leave at end of year. Payer of premium gets tax deduction against year 1 profits; recipient of premium in year 2 has taxable receipt.

(ii) General effect of 1987 RIC legislation (Section 70, Finance (No 2) Act 1987). Ensured proper scrutiny of RIC for tax. Not tax deductible if exceeds "fair and reasonable" assessment of outstanding liabilities.

(iii) Effect of RIC legislation on syndicate members. If some of syndicate RIC is disallowed for tax, the members paying the premium for year 1 get a smaller tax deduction (ie pay more tax). The disallowance for year 1 members produces a corresponding credit for the year 2 recipients of the premium against their taxable receipts. The credit reduces the taxable receipts of year 2 members (ie lower taxable profit). The amount of year 2 credit depends on the member's share in year 2 syndicate.

(iv) Effect of Budget proposals on leavers. Effect of old rule: if syndicate RIC disallowed leaver has smaller tax deduction for year 1 (ie extra tax) but gets no credit for year 2. New rule: Leavers will get full tax deduction for RIC premium paid (hence no increase in tax bill). Correspondingly, no reduction in taxable receipts in year 2 for recipients of leaver's premium (so joiner of year 2 syndicate gets no credit for tax disallowances in year 1).

(v) Effect of proposals on continuing members of syndicates (ie members of syndicate paying premium in year 1 and receiving it in year 2). No change in tax treatment of premium paid in year 1 (ie same increase in tax). But new rule for amount of credit for year 2:

- New rule: Credit (ie tax reduction) against taxable receipts for year 2 the same as amount disallowed (ie extra tax) for year 1 payments.
- Under old rule members with reduced syndicate share in year 2 lost out. Credit for year 2 smaller than extra tax in year 1. And person with increased syndicate share would gain: year 2 credit bigger than year 1 disallowance.

(vi) Start date for new rule. Lloyd's 1985 account (closes end 1987, tax first payable 1 January 1989). Same start date as last year's RIC legislation. So old rule will not apply in practice.

(vii) Cost - unquantifiable, because RIC legislation has not started to apply. Relief for leavers will affect under 10% of Lloyd's members. So cost unlikely to be significant. Changed arrangements for continuing members will have no revenue effect (gains for those who reduce syndicate shares balanced by losses for those who increase shares).

Positive

(i) Meets Lloyd's only complaint about 1987 RIC legislation.

(ii) Corrects anomaly. Old rule unfair on leavers (who paid extra tax in year 1 and got no credit for it in year 2). And unfair on continuing members who reduced shares (credit for year 2 smaller than extra tax for year 1). Old rules too generous to members who join syndicates in year 2 (got year 2 credit without paying extra tax in year 1). Also over generous to continuing members who increased shares (who got excessive credit at expense of those who had reduced shares).

(iii) 1985 start date means RIC legislation will operate fairly from the start.

Defensive

(i) Weakens RIC legislation/give-away to Lloyd's members? No. Change substitutes fair system for anomalous, unfair rules. Losers as well as gainers. Effectiveness of RIC legislation unimpaired.

(ii) Substantial cost to Exchequer? No. Only tax cost from relief for leavers - less than 10% of Lloyd's members. Yield unaffected by changes for continuing members - gainers and losers balance out.

(iii) Why no yield figures for RIC legislation generally? Impossible to quantify, because legislation has not started to operate (first effect on RIC premiums for 1985 account - Revenue scrutiny begins July 1988, first tax not payable until January 1989).

(iv) Scope for exploitation/avoidance? No practical possibility of syndicates producing excessive RIC premiums to take advantage of relief for leavers. Would disadvantage the 90% plus who continue in syndicates. No practical possibility of individual members leaving syndicates to avoid tax disallowance of RIC. Decision to leave syndicate has to be taken three years before syndicate determines amount of RIC (eg RIC for 1985 syndicate not determined until April 1988, but decision to leave syndicate at end-1985 has to be taken by July 1985).

(v) Why wasn't the leavers point covered in the original (1987) legislation? Discussed with Lloyd's at the time. Lloyd's agreed not to pursue because solutions seem too complex. Further consultation has produced the present, simple, solution.

LLOYD'S - REFORM OF ADMINISTRATIVE ARRANGEMENTS

Inland Revenue issuing press notice on Budget DayFactual

(i) Legislation will reform and simplify the administrative arrangements for assessing and collecting tax from Lloyd's members. Benefits the Revenue and Lloyd's.

(ii) Main features

- syndicate agents will have legal responsibility for making returns of syndicate profits, and for appeals/litigation if there is a dispute with the Inspector (at present agent makes return, but has no legal responsibility for doing so. Result - delays in establishing amount of syndicate profits and hence delays in establishing Lloyd's members taxable profits from their syndicates);

- underwriting profits and syndicate investment income will both be taxed as members trading income under Schedule D Case I (at present this treatment only applies to underwriting profit/loss. Different treatment of the two streams of income produces complexity and delays);

- syndicate agents will make a payment on account of basic rate tax. (At present they do this for syndicate investment income, but not for underwriting profits. This difference in treatment produces further complexity and delays);

- a single assessment on each member on his Lloyd's income six months after the agents' payment on account. This will cover basic rate (with credit for tax already paid by agents) and higher rate liability. (This single assessment will replace the present multiplication of assessments).

(iii) Syndicate capital gains will not be affected (see separate brief).

(iv) Cost/yield. No significant effect. (No significant changes in incidence of tax. Acceleration of tax payments balanced by acceleration of repayments for members' losses).

(v) Start Date. Changes first apply for Lloyd's 1986 account (closes end 1988, tax first due on 1 January 1990).

Positive

(i) Major simplification of present administrative arrangements. Present system complex and costly for both Lloyd's and the Revenue. Produces excessive delays for both sides.

BUDGET CONFIDENTIAL

(ii) Simplification necessary to cope with increases in Lloyd's membership (6000 in 1972; 31000 now) and Revenue scrutiny of Lloyd's RIC (following 1987 legislation).

(iii) Reforms benefit Lloyd's as well as Revenue. Delays and compliance costs produced by present arrangements a major problem for Lloyd's. Lloyd's support the objectives of the change.

(iv) Consultation with Lloyd's. Full consultation pre-Budget. New scheme takes account of Lloyd's views. Further consultation post-Budget to ensure detailed rules are simple and effective.

Defensive

(i) Lloyd's members will be worse off? No significant change in amounts of tax due from Lloyd's members. Due dates for payment will not be advanced. Fewer delays in payment of tax, but balanced by fewer delays in repayments of tax where members have incurred losses.

(ii) Give-away to Lloyd's members? No. No significant change in tax liability (see (i) above).

(iii) Syndicate agents responsibility for returns, appeals etc over-rides legal relationship between member and his agent. Only change is to give the agent a legal responsibility for what he already does in practice, which only he can do. Lloyd's agree change essential to avoid delays, and have a workable procedure for settling disputes on amount of syndicate profit.

(iv) Wrong for agent to have to make a payment on account of basic rate tax. Agent already does this for the members syndicate investment income. Sensible for same procedure to apply to underwriting profits. If there is an underwriting loss payments on account will be smaller than at present. Members will get credit for tax paid by agents when they (ie the members) are assessed six months later on their underwriting income.

LLOYD'S - SRF AND CAPITAL GAINS TREATMENT

NB - NO CHANGE on either point. Briefing for defensive purposes only.

The no change decision on Lloyd's CG is referred to in Budget Press Notice on Administrative Reforms. No Budget Day reference to SRF

I LLOYD'S SPECIAL RESERVE FUND (SRF).

Factual

Gives higher rate relief for contributions to fund to meet future losses. £7,000 ceiling on annual contributions - unchanged since 1955 on grounds that reductions in personal tax rates have made improvements unnecessary.

- Lloyd's representations this year for major improvements in SRF (including abolition of ceiling on contributions). Lloyd's main argument that (bigger) relief from higher rate tax on contributions to fund necessary to compensate for difference between 60% individual tax rate (for Lloyd's) and CT rate (for insurance companies). Ministers decided on no change.

Defensive

(i) Why no improvement in SRF? Lloyd's representations considered. But their main arguments for improvement overtaken by general personal tax package: viz -

- reduction in maximum personal tax rate
- difference between CT rate and maximum personal tax rate now small
- SRF is unique benefit. No-one else gets tax relief for general reserves. Long-standing Government view that no case for improving SRF because of past reductions in tax rates. Case for improvement finally removed by this year's major personal tax rate reductions.

(ii) Why not abolish SRF? SRF a special relief which takes account of Lloyd's special features. Personal tax reductions in Budget mean no case for improving SRF. But they do not remove the case for having SRF at all.

II LLOYD'S CAPITAL GAINS TREATMENT

Factual

(i) No change in basis of treatment of Lloyd's capital gains. Members' gains from syndicate premium trust funds will continue to be taxed under individual CG code. (So Budget changes on CG will apply to Lloyd's members in the same way as other taxpayers.)

(ii) Ministers considered bringing treatment of Lloyd's syndicate gains into line with that of other financial traders - ie gains subject to Income Tax, as part of trading income, instead of being subject to CG code. Issue discussed in context of administrative reforms. Lloyd's made strong representations against a change.

(iii) Ministers decision. No change in CG treatment for time being. But make it clear that no guarantee the present treatment will continue indefinitely and that Lloyd's use of the current 'individual' basis will be kept under review.

Defensive

(i) Why not give Lloyd's the same CG treatment on the syndicate capital gains as other financial traders - ie tax gains as income? Current treatment of Lloyd's CG, under individual CG code, is long-standing. Recognise difference of treatment compared with other financial traders. Ministers have decided to leave present treatment unchanged for time being. But position will be kept under review.

(ii) Lloyd's have been exploiting present basis to avoid tax. Ministers aware of reports. One of the reasons why Lloyd's members use of indexation (particularly on US assets) will be monitored.

(iii) Why are Lloyd's capital gains left out of the administrative reforms? The present administrative arrangements for these gains are satisfactory for Lloyd's and the Revenue.



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

15 March 1988

LLOYD'S - REFORM OF ADMINISTRATIVE ARRANGEMENTS FOR TAXING MEMBERS OF LLOYD'S

The Chancellor proposes in his budget to reform the administrative arrangements for assessing and collecting tax from Lloyd's members.

The present system is complex and costly to administer for both Lloyd's and the Revenue. It gives rise to excessive delays in collecting tax from profits and in repaying tax to Lloyd's members when they incur losses. Simplification is necessary to cope with the continuing increase in Lloyd's membership and the consequences of the Revenue's scrutiny of reinsurance to close premiums.

The revised arrangements are the outcome of extensive discussion with Lloyd's. There will be further consultation with Lloyd's on the details. The revised arrangements will first take effect for the 1986 underwriting year. The accounts for that year will be closed at the end of 1988, and tax first becomes payable on 1 January 1990.

The revised arrangements will apply to underwriting profits/losses and to investment income from syndicate premium trust funds. Capital gains from premium trust funds will not be affected. These proposals will not significantly affect the amount of tax paid by Lloyd's members.

DETAIL

1. How Lloyd's operates

Lloyd's members trade as underwriters, but conduct their business through syndicates, managed by agents. Most Lloyd's members are members of a number of syndicates. The member's profit or loss from each syndicate comes from three sources: underwriting profit or loss, investment income from the premium trust fund and capital gains from the premium trust fund. The members' overall profit (or loss) from his underwriting

activity reflects his share in the profit (or loss) from all the syndicates of which he is a member.

2. Present tax arrangements

There are special legislative rules for assessing and collecting tax from Lloyd's members. The present rules were introduced in 1972, and were designed to adapt the normal rules to the way in which Lloyd's operates commercially. The present system is inadequate to cope with the increase in Lloyd's membership (about 6000 in 1972; more than 30,000 now). The need for reform and simplification is increased by the detailed scrutiny of reinsurance to close premiums, following the legislation in 1987 (Finance (No. 2) Act 1987, Section 70).

MAIN FEATURES OF THE PROPOSED REFORMS

3. Syndicate agents' responsibility for returns of syndicate profits

In practice, syndicate agents submit tax computations to the Inspector for syndicate underwriting profits/losses and syndicate investment income. But the agent has no legal responsibility for producing this tax computation, even though he is the only person in a position to produce it. The new proposals will give the syndicate agent a legal responsibility for making a return of the syndicate profit, and for appealing (and if necessary litigating) if there is a dispute with the Inspector about the amount of the syndicate's profit or loss for tax.

4. Basis of assessment of underwriting profits and syndicate investment income

Both of these sources of income will be charged to tax under Case I of Schedule D, as income of the member's underwriting trade. At present this treatment applies to underwriting profits, but not to investment income. The difference in treatment is a major source of complexity and delay. It produces an excessive number of separate calculations, repayments and subsequent adjustments.

5. Collection of tax from syndicate agents

Agents will be required to make a payment on account of basic rate tax on the syndicate profit - ie both underwriting profit and syndicate investment income. At present the agent makes a payment on account of basic rate tax on syndicate investment income, but not on underwriting profit. This difference of treatment exacerbates the problems - paragraph 4 above - arising from the separate basis of assessment for the two types of income.

6. Assessment of members on underwriting profits and investment income

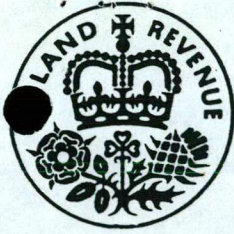
The member will be assessed on his aggregate profit from his syndicates six months after his agents have made their payment on account of basic rate tax. The assessment will cover both

basic rate and higher rate liability, with credit for the tax already paid to the Revenue by his syndicate agents. (At present basic rate and higher rate tax are assessed at different dates - 1 January and 1 July respectively - eg 1 January and 1 July 1990 for the Lloyd's 1986 account, which closes at the end of 1988. This duplication is a further complication in the present system).

Compliance Cost Assessment

Assessment of the compliance costs of proposals affecting businesses are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from:

Inland Revenue
Deregulation Unit
Room 77
New Wing
Somerset House
London, WC2R 1LB



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
PHONE: 01-438 6692 OR 6706

[3x]

15 March 1988

LLOYD'S - TAXATION OF REINSURANCE TO CLOSE (RIC) - RELIEF FOR LLOYD'S MEMBERS WHO LEAVE SYNDICATES

The Chancellor proposes in his Budget to modify the effect of the 1987 legislation on the tax treatment of Lloyd's reinsurance to close (RIC) premiums. The effect of the changes will be to give relief from the effect of the RIC legislation to Lloyd's members who leave syndicates, and to produce simpler and more equitable treatment for those who continue their syndicate membership.

The proposals have been discussed with Lloyd's. They do not affect the general rules in the 1987 legislation for determining the amount of RIC premiums that are tax deductible.

The RIC legislation first applies to the Lloyd's 1985 underwriting year. These proposals will take effect from the same date. (The Lloyd's 1985 underwriting account closes at the end of 1987. The amount of the premium is established early in 1988 and tax for the underwriting year first becomes payable on 1 January 1989.)

Cost to the Exchequer The yield of the RIC legislation to the Exchequer will only be affected by the relief for those who leave syndicates at the end of an underwriting year - currently less than 10% of Lloyd's membership. The cost to the Exchequer cannot be quantified (because the RIC legislation has not yet begun to apply) but is not expected to be significant.

DETAIL

1. Lloyd's Reinsurance to Close (RIC) is the payment of insurance premiums by members of Lloyd's syndicates in order to close the account for the underwriting year. The premiums for that year (Year 1) are paid to the members of the Year 2 syndicate who assume the outstanding liabilities. The payers of the premium for Year 1 receive a tax deduction against their Year 1 profits; the recipients of the premium in Year 2 have a taxable receipt.

2. The purpose of the 1987 RIC legislation (Section 70, Finance (No 2) Act 1987). This legislation ensures that RIC is subject to effective scrutiny for tax purposes, on criteria which take account of the particular features of Lloyd's, and the special nature of RIC. The test in the legislation is that RIC is not tax deductible if it exceeds a 'fair and reasonable' assessment of the value of the outstanding liabilities which are the subject of the premium payment.

3. If part of the premium paid by the member of the Year 1 syndicate is disallowed for tax he gets a smaller tax deduction against his profits for Year 1. The recipient of the premium (the member of the Year 2 syndicate) gets a corresponding credit for the amount disallowed for Year 1 against his taxable receipts for Year 2.

4. The effect of the proposals on members who leave syndicates. At present a member who leaves a syndicate would have a reduced tax deduction for Year 1, but would not get any credit for that disallowance for Year 2 (because the credit would go to his successor in the Year 2 syndicate). The effect of the new rule is that the leaver would get a full tax deduction for the premium he pays for Year 1, without being affected by the RIC legislation. Correspondingly, there will be no reduction in the taxable receipts in Year 2 - ie no credit - for the recipients of his premium. So a person who joined a syndicate afresh in Year 2 would get no credit.

5. The effect of the changes for continuing members of syndicates - ie those who are members of the syndicate paying the premium in Year 1 and also members of the Year 2 syndicate receiving the premium. There will be no change in the tax treatment of premiums paid by these members for Year 1.

1. The difference in treatment will be in the amount of credit received for Year 2, against the taxable receipts for that year. Under the present rules the amount of a member's credit for Year 2 is governed by the size of the member's share in that syndicate. So a member who reduced his share in the Year 2 syndicate would find that his credit for Year 2 was smaller than his tax disallowance for Year 1. Correspondingly, the person with an increased syndicate share for Year 2 would have a credit for that year which was bigger than his tax disallowance for Year 1. The new rule will be simpler. The amount of a member's credit for Year 2 - ie the reduction in the taxable receipt for Year 2 - will be the same as the amount of that member's RIC premium disallowed for Year 1.



CHANCELLOR / 2

FROM: FINANCIAL SECRETARY
DATE: 25 February 1988

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

INDEPENDENT TAX AND INCOME TAX: BULL POINTS

You wanted a list of bull points on these areas for Overview on Monday. Obviously we will have to sharpen these up when we have the detailed distributional analyses and the Budget Brief. I have also taken this opportunity to look at some of the defensive lines we might deploy in the face of the expected criticisms.

Independent Taxation

2. The main points must be:

- (i) Ending a major 200-year anomaly in the tax system so that the married woman will no longer be treated as the husband's chattel;
- (ii) Giving privacy and independence to married women;

BUDGET SECRET: TASK FORCE LIST

FST
TO
CX
25 FEB

BUDGET SECRET: TASK FORCE LIST

(iii) Ending the tax penalties on marriage (together with mortgage interest relief and CGT).

3. Second-order bull points would be:

(i) The beneficial distributional effects on the elderly and low income married women;

(ii) Recognition of marriage (related to ending the tax penalties, which in my view is the stronger point).

4. The main defensive lines will be:

Q1 : Why not MST? Why not abolish the MMA?

A1 : Because we think that marriage should be recognised by the tax system [and one-earner married couples should get a bigger tax allowance than single people to help with the costs of a family etc.]

dangerous

Q2 : Why not TAs?

A2 : We wanted to secure our objectives (see paragraph 2 above) quickly: [and no clear consensus emerged in favour of TAs. One-earner couples will get a higher allowance than single people.]

△ this comes in full in 1990; TAs will not be possible until 1993 & then will have to phase because of the cost in 1976 Jan 11

Q3 : Why not PTAs?

A3 : *Worst of all worlds ->* ~~Too complicated and would take longer to bring in. Better to have independent taxation in 1990.~~

Take only on TAs & Allowance, with full savings of TAs

Q4 : Why give a married allowance back to those currently opting for the WEI election?

A4 : Follows from giving independence to all and from our recognition of marriage. We do not want to 'means test' the MCA.

Q5 : Massive revenue and staff cost?

A5 : Well worth it!

Bolebas acc Justice

INCOME TAX

5. The bull points are:

- (i) Supply side effects of lower marginal rates;
- (ii) In a world of mobile managers tax rates must be internationally competitive. Our rates will be amongst the very lowest in the world. Like our 1984 company reforms these proposals will doubtless be emulated by countries around the world;
- (iii) The Basic rate cut will restore the Labour Party's Reduced Rate band for all taxpayers. Fulfils long-standing pledge;
- (iv) Allowances up ^{25%} 30% in real terms since 1978/79;
- (v) Large numbers taken out of tax since 1978/79;
- (vi) The proportion of tax revenue paid by higher rate payers will still be higher than in 1978/79;
- (viii) 75% of the costs of the personal tax package will go on allowances and the basic rate;
- (viii) Reduction in tax avoidance/emigration;
- (ix) Tax and NIC burden lower than in 1978/79 for single people at all multiples of average earnings despite substantial gains in real take home pay (but note: not true for married people). True for great bulk.

as are our CT rates.

True next Budget?

only 2/3 L89-90 a to new cuttings

check

Concerns on other

6. Obvious criticisms would be:

- Q1 : Why the odd pattern of marginal rates?
- A1 : Does it matter? Pattern follows NIC structure which in turn rests on the contributory principle and help for low-paid.

(seems self-evident)

that some people pay 25% now of 34%?

BUDGET SECRET: TASK FORCE LIST

- Q2 : Why keep a higher rate at all?
- A2 : Income tax should be ~~progressive~~; highest earners have done very well from the Budget; right to devote bulk of resources available to allowances and Basic Rate reductions. *Long standing feature of tax system, in the context of other*
- Q3 : Why the large jump between Basic Rate and Higher Rate?
- A3 : Does it matter? Key point is a taxpayer's marginal rate - not somebody else's marginal rate.
- Q4 : Why cut income tax and not NICs?
- A4 : Always said our priority was to cut income tax. NIC decisions are made in context of decisions about benefit levels. *normally* Not a matter for Budget.
- Q5 : Why no integration of tax/NICs?
- A5 : ~~Contributory Principle.~~ *See Green Paper*

OTHER ISSUES

7. I am considering carefully who I should write to or see post-Budget to explain the independent taxation proposals. I will be seeing the Personal Finance Correspondents. I think this will be a crucial meeting and will determine the tone of much of the comment. In addition I propose - unless you want to do so - to see Dame Joan Secombe and Lady Platt. However, I will provide a full list in due course.

AL

NORMAN LAMONT

BUDGET SECRET: TASK FORCE LIST

BUDGET SECRET: TASK FORCE LIST



COPY No SPJ/12/1 of 32

FROM: S P JUDGE

DATE: 25 February 1988

PRINCIPAL PRIVATE SECRETARY

cc PPS
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr Anson
Sir Anthony Wilson
Mr Byatt
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Odling-Smee
Miss Sinclair
Mr R I G Allen
Mr Pickford
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call
PS/Inland Revenue
Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr McManus - IR
Mr Unwin - C&E
Mr Knox - C&E

BUDGET OVERVIEW MEETING: MONDAY, 29 FEBRUARY: PRESENTATION

I attach the Paymaster General's suggested bull points on the subjects for which he is responsible. This reflects a discussion he had earlier today with Mr Cropper and Mr Tyrie.

S P JUDGE
Private Secretary

PMG
TO
CX
25 FEB

NM/21

BUSINESS AND HOUSING

1. CT rates

- a. Greatly increased yield is result of greatly improved profitability, to which 1984 reforms have made significant contribution;
- b. Small businesses helped by reduction in their rate to 25 per cent;
- c. CT rate lowest in Europe.

MS also rely on Corporate tax - v. substantial releasing

2. BES

- a. Over £700m raised through BES schemes in only five years;
- b. Ceiling will improve targeting of relief on entrepreneurial investment.

~~MS also~~

3. Business entertainment

- a. Removal of ridiculous anomaly;
- b. Simpler for businesses: all entertainment treated in same way for CT and VAT.

4. Section 482

- a. Replaces inappropriate [and draconian] criminal penalty with civil offence; *Is wh pay tax a civil offence? So what?*
- ✓ b. Removes uncertainty. Tax treatment will depend on point of fact: companies will not have to get consent before emigrating; *Right for CAT can't be avoided by any means with Antilles*
- c. Protects revenue against evasion by future emigration.

5. ESOPs

- a. An idea whose year has not yet come;
- b. Need to keep Finance Bill short.

This isn't a bull point?!

6. Private rented sector

- a. Kick start, to change attitudes;

- b. Signal of Government's commitment to private rental sector as flexible [adjunct/supplement/reinforcement] to home ownership;
- c. More tenancies mean more tenants.

7. Profit-related pay

- a. Don't pull scheme up by its roots yet. Wait and see how it grows.

8. CGT retirement relief

not quite right

- a. Encouragement to those [considering] entering unincorporated sector: know they will be able to realise gains [later] [more easily]; *works with Singapore? comp? [lumpy assets]*
- b. Avoids locking-in managers for life. Encourages infusion of new blood.

works?

9. Inheritance tax

- a. Simplification of rates - four into one;
- b. Consistent with IT rates [precedent];
- c. Recognises reality of house prices [in the South East.]

Take 1/4 out of tax helps family business

10. MIR: residence basis

- a. Removes disincentive to marriage for those setting up their first home.

11. MIR: improvement loans

- a. Clear, growing and unacceptable level of abuse of this relief;
- b. [selected audiences] Response to forceful report from the PAC.

see note below.

page CST - done



Inland Revenue

Policy Division
Somerset House

FROM: M A JOHNS

DATE: 25 FEBRUARY 1988

PS/PAYMASTER GENERAL

BUDGET: OVERVIEW MEETING: MONDAY 28 FEBRUARY: PRESENTATION
MORTGAGE INTEREST RELIEF

The Paymaster General has suggested (your note of 25 February) that the "bull points" on home improvement loans should be the growing unacceptable level of abuse and providing a response to a forceful report from the PAC. Mr Painter has had a word with Mr Cropper about this and perhaps I could record the same point with you.

At last Monday's Overview it was agreed that the presentation should not concentrate primarily on the abuse, but that it should instead make the point that the charge focussed mortgage interest relief on its real intention: house purchase. This was a more sensible restriction than others urged on the Government.

c Principal Private Secretary (2)

PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Byatt
Mr Scholar
Mr Culpin
Mr Sedgwick
Sir Geoffrey Littler
Mr Anson
Sir Anthony Wilson
Mr Odling Smee
Miss Sinclair
Mr R I G Allen
Mr Pickford
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call
Mr Unwin (C & E)
Mr Knox (C & E)

Chairman
Mr Isaac
Mr Painter
Mr Beighton
Mr Johns
Mr O'Connor
PSIR.

1988-89

	Reset Scenario	Revised Scenario	19,300 Threshold
Personal Allowances Personal Allowances	690	690	690
Basic rate	2440	2520	2520
Higher rate threshold	220	230	120
Higher rate amt	<u>960</u>	<u>1000</u>	<u>1030</u>
	4310	4440	4360
		(+130)	(+50)

1989-90

Personal allowances	890	890	890
Basic rate	3060	3160	3160
HR Threshold	400	430	220
HR amt	<u>2050</u>	<u>2140</u>	<u>2210</u>
	6410	6630	6490
		(+220)	(+70)

BUDGET SECRET: TASK FORCE LIST

The problem with concentrating on abuse is that even if abuse runs at one false claim in five this still means that removing it is penalising four innocent people for every guilty one. And we have no evidence that the problem is growing: while it probably did immediately after the introduction of MIRAS, we and Ministers have put a lot of effort into publicity recently to deter abuse. It is too early to tell how effective it has been but we would hope it has at least stopped any growth in abuse. And Ministers and officials have presented the introduction of new forms, increased sample checking and publicity as the response to the PAC report.

The draft Speech therefore at present uses the abuse argument as secondary to the concentration of relief on its main purpose and the fact that the majority of relief goes on improvements which add to the value of property rather than increasing living space. It is worth considering whether this approach will not create fewer hostages to fortune.

One other tiny point on the residence basis: the present tax penalty on marriage does not only arise where people are setting up their first home. Would it be more accurate to present it as removing a disincentive to marriage "for those setting up home"?

M. A. Johns

M A JOHNS

PDPB/3/7

COVERING BUDGET SECRET - TASK FORCE LIST



COPY NO 1 OF 30 COPIES

FROM: P D P BARNES

DATE: 25 February 1988

PS/CHANCELLOR

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

BUDGET PRESENTATION: BULL POINTS

The Economic Secretary suggests the attached bull points on the Budget measures for which he has presentational responsibility.

RB

P D P BARNES
Private Secretary

EST
TO
CX
25 FEB

BUDGET SECRET - TASK FORCE LIST

**BULL POINTS: SPENDING TAXES**

Within the overall revalorisation, balance of taxes shifted to reflect health and environment considerations:

- tobacco tax: more on cigarettes, no increase in pipe tobacco
- alcohol: beer duty structure altered to relate duty more closely to strength; likewise wine duty altered to encourage development of low alcohol coolers; spirits already more highly taxed per degree of alcohol than beer or wine
- petrol: increased incentive for unleaded.

Increase in differential between leaded and unleaded petrol to 10p will accelerate switch to use of healthier unleaded petrol. Unleaded should now be no more expensive than leaded. (Government has done its bit - up to petrol companies to make unleaded petrol more widely available).

Value of cigarette duty maintained. Maintains the 51% rise, in real terms, of cigarette tax since 1979 (unlike previous Labour Government when tax fell by 7%). Cigarette sales fallen by over 20% since 1980 - current increase should maintain this pattern.

Economic success means that substantial direct tax cuts can be accommodated with low Government borrowing and without the need to make real increases overall in indirect taxes.

VAT threshold raised to maximum level compatible with EC legal obligations.

Disclosure of importers' details improves market information.

*Home on
Head-fu: gone
on unit on
pms*

~~Asst~~

*wd from
tobacco*

V. Anderson

**BULL POINTS: REVENUE KEITH**

- more difficult to evade tax.
- late taxpayers no longer gain advantage over prompt ones.
- honest taxpayers do not subsidise evaders.
- allows overall taxes to be lower.
- safeguards against over zealous investigators preserved.

CUSTOMS KEITH

- ✓ - we have listened to business and adapted system to relate penalty for late registration to the length of delay.
- penalties less onerous.
- relaxation of limitations on repayment Supplement will make more traders eligible for repayment.
- changes to VAT civil penalty regime represents significant easement for traders without endangering improvements in compliance.



BULL POINTS: CAPITAL GAINS TAX

① anti-distribution
② anti-avoidance

a. change in rates:

- reduces incentive to switch income to gains
- ensures that for high earners capital gains are treated in a fashion broadly similar to income
- gives lower income groups a lower rate of tax
- ^{in most cases} ~~for overwhelming majority~~ less tax payable on gains than in US [and most major countries]

b. rebasing:

- removes pre-1982 gains, which are largely inflationary, from tax entirely
- meets most common and long-standing grievance
- unlocks capital for reinvestment in more profitable areas

~~- advances tax revenues~~

c. higher CGT retirement relief should help small businessmen planning for retirement, thereby increasing incentives

d. separate CGT exemption for wives makes CGT a fairer system.

BUDGET SECRET - TASK FORCE LIST



BULL POINTS: BUILDING SOCIETIES

- Changes remove substantial but unintended tax burden from societies converting from mutual to company status which would effectively rule out conversion in many cases.
- Conversion option in Building Societies Act now substantially tax neutral - leaves a genuine commercial decision for societies.
- Package of changes very similar to those given in Trustee Savings Bank Act 1985 to TSB before its flotation.

Misses out small businesses ✓

BULL POINTS: INHERITANCE TAX

- the package of measures recognises that the desire to bequeath to children is a major incentive to wealth creation.
- replaces four rates by one whilst leaving everyone better off.
- raising threshold takes modest estates out of tax altogether, recognises that rising house and other asset values has pushed many more estates into liability to tax.

**BULL POINTS: OIL TAXATION****Fiscal regime**

- a revenue-neutral (over time) supply-side measure which should encourage and advance development of marginal fields in Southern North Sea by making tax system more profit-related.

CGT [Rollover]

- removes an impediment to exploration and development which raised little revenue but imposed serious compliance costs because of difficulty of measuring gain.
- will enable licence interests to be transferred to those with greatest incentive, resources, knowledge and commitment to explore and develop.
- fulfils promise made during last Finance Bill.

Tariff Related Operating Costs

- removes anomaly that might impede sensible pipeline-sharing deals being agreed, even though the anomaly would not come into play until end of field life.



BULL POINTS: FORESTRY

- ends absurdity which generated negative tax revenue from a whole industry
- old system concentrated incentives on the rich whereas new regime gives more widespread incentive to engage in forestry
- new regime enables incentives to be targetted to encourage more broadleaf, native pine and transfer of arable land to forestry.

Environment

BULL POINTS: POTATO AND MILK ROLLOVER

- makes it easier for farmers to move from small farms to larger farms.
- facilitates moves by farmers to different types of agricultural production.



FROM: FINANCIAL SECRETARY
DATE: 26 February 1988

CHANCELLOR

cc Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir G Littler
Sir T Burns
Mr Anson
Sir A Wilson
Mr Byatt
Mr Scholar
Mr Culpin
Mrs Lomax
Mr Cropper
Mr Tyrie
Mr Call
Mr Battishill IR
Mr Painter IR
Mr McGivern IR
Mr Spence IR
PS/IR

BULL POINTS: LLOYD'S

I think the main bull points here are:

- Handwritten in red: "Lloyd's, the sack"*
- (i) General : Lloyd's Members will benefit greatly from the cuts in higher rates;
- (ii) Leavers : Meets Lloyd's only complaint about last year's RIC legislation. Recognises the special position of those who leave syndicates;
- Handwritten in red: "}"*

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TO
CX
26 FEB
LLOYDS

BUDGET SECRET: TASK FORCE LIST

BUDGET SECRET: TASK FORCE LIST

- (iii) Administrative Reform : Major simplification of present administrative arrangements. Will benefit Lloyd's as well as the Revenue, by reducing compliance costs and delays. Simplification necessary to cope with increases in Lloyd's membership and Revenue scrutiny of Lloyd's RIC. Lloyd's support reform and are fully involved in working up details.

2. There are two other issues:

- (i) SRF : This proposal falls now that higher rates have been dramatically reduced;
- (ii) ^{Lloyd's} Capital Gains : I will, during the Finance Bill debates, want to give a warning about tax avoidance.



NORMAN LAMONT

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BUDGET SECRET: BUDGET LIST ONLY NOT TO BE COPIED
 BUDGET LIST ONLY REF No JR/18



COPY NO. 2 OF 32.

FROM: CHIEF SECRETARY

DATE: 26 February 1988

CHANCELLOR

cc: Financial Secretary
 Paymaster General
 Economic Secretary
 Sir Peter Middleton
 Sir Terence Burns
 Sir G Littler
 Mr Anson
 Sir A Wilson
 Mr Byatt
 Mr Scholar
 Mr Culpin
 M Sedgwick
 Mr Odling-Smee
 Mr R I G Allen
 Mr Pickford
 Miss Sinclair
 Mr Riley
 Miss Simpson
 Miss Evans
 Mr Hudson
 Mr Cropper
 Mr Tyrie
 Mr Call

Mr Battishill
 Mr Isaac
 Mr Painter

Mr Unwin
 Mr Knox

BUDGET PRESENTATION BULL POINTS

I've been giving some further thought to presentation of the Budget generally, and also in respect of those specific portions allocated to me. I am afraid these notes have been drafted hastily.

Presentation Mechanics

2 In the internal Budget Brief, I would find it helpful if each section could begin with three points: what are the rules now; how are we changing them; and why.

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We're doing Treasury Press Releases on (1) & (2)

3 In addition to the normal Inland Revenue press releases, I believe we should have explanatory booklets on (1) Covenanting and Maintenance, (2) Independent Taxation, (3) the Residence Basis of MIR, and (4) BES and the Private Rented Sector. In addition there would be some advantage in having explanatory booklets on (1) Cars and other perks, (2) Forestry, and (3) CGT, although I feel less strongly about these latter items.

4 I understand that the Budget Day issue of the Economic Progress Report will also be available as condensed popular version of the Budget. We certainly need to produce a Backbench Brief: I suggest we look at a draft of that next week. *P Cropper has L hand*

5 We may wish to write a letter outlining the bull points in certain areas to Conservative members of the relevant Select Committees or Backbench Committees. It would be helpful if the advisers could produce a consolidated list.

6 Finally, following the debate on the Budget Speech, we may wish to make a number of speeches to clarify the rationale behind certain changes, eg forestry. We need to consider how to orchestrate these to best effect. We may also want to set up meetings with specialist interest groups, such as Midland MPs, and the SMMT regarding changes in the car scales. Again, it would be helpful if the advisers could start on a list.

No! Concentrate on Stimulus Support (what's new)

Overall Presentation

7 It will be essential for us to present the principled case for cutting taxes and not giving more money now to the NHS. This will be particularly important since some who support tax cuts will point out that sufficient fiscal adjustment was available to finance both lower taxes and higher NHS spending. We therefore need to develop overall bull points, such as:

Business

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- BUDGET*
- The need ~~to focus on what~~ proportion of a person's income it is reasonable for a government to take. With more reasonable higher tax rates we will be able to keep successful people, such as surgeons, in the UK.
 - The top 5% of earners are now contributing more to financing the Health Service than they were when they were subject to the penal tax rates of Labour.
 - Reducing taxes allows individuals to invest in industry, through buying shares, rather than leaving this as the perogative of government etc. ?

The remainder of this minute outlines the bull points in the presentational areas allocated to me.

Cars and Other Perks

- Company cars are currently grossly under-taxed.
- With lower income tax, now is the time to make a large move towards proper taxation of company cars.
- But we accept that we can't get all the way in one go.
- Equity requires a proper taxation of all emoluments, whether cash or in kind.
- (Possession of a company car saves the individual from having to purchase a private car, and that value should be taxed).
- In the exceptional circumstances of this year, when we are doubling the valuation of cars for tax purposes, it seems right to raise the point at which people become liable for tax on their benefits in kind. But we do not intend to raise it again.

issues

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MIR: Home Improvement Loans

- See Riley note*
- The changes focus MIR on its main objective, that of encouraging house purchase. [Home Improvement Loans are typically small compared to purchase loans, ~~and the change is unlikely to affect house prices?~~]
 - About 90% of Home improvement loans are used for purchase of central heating, insulation or double glazing, or used for non-housing purposes. They are little more than a form of cheap consumer credit.
 - It is virtually impossible to police whether the tax relief is used to finance home improvements at all.

Forestry

- The change removes an unnecessary and undesirable tax shelter.
- It is simpler.
- The new regime will reduce the disproportionate incentive that was available to the highest rate taxpayers to invest in forestry.
- Exchequer support for forestry will be maintained in order that announced planting targets can be met.
- The new forestry regime will give greater encouragement toward the environmental aim of a higher proportion of broad leaf tree planting.
- (Link with ALURE?)

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Maintenance and Covenants

(See budget speech)

- Tax relief on interpersonal transfers is anachronistic, and will be discontinued. Takes Inland Revenue out of them as far as possible.

Maintenance:

Wholly out of covenants, wh. are form of tax shelter - no longer necessary

- The new maintenance system is simpler, involving only one claim for relief. [It will make it easier for the Courts to understand the tax implications of divorce/separation.]
- Under the new scheme recipients pay no tax on maintenance payments. A man paying maintenance to his ex-wife will get tax relief up to the single allowance.
- The new maintenance system is fairer, involving no tax penalty on marriage.
- The new maintenance system is better for incentives, with a divorced or separated wife able to earn up to the single allowance without paying tax.
- In due course should reduce the burden on the Courts by removing applications made purely for tax reasons.

Covenants

- System has evolved over time without any coherent rationale.
- Mainly used by tax-wise parents to support their student children, while not benefiting those unaware of the device.
- There is no effect on charitable covenants.
- Under the new scheme of covenants, beneficiaries pay no tax.

*Too complex
→ Covenants
→ tax shelter*

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- Parents of students starting new courses, will benefit from a reduction in parental contribution to the student grant. This will offset the withdrawal of tax relief.

Minor allowances

- These are widely accepted as anachronistic. The sons and daughters allowance has been frozen since 1953. The Dependent Relatives Allowance and Housekeeper Allowance has been frozen since 1960. The most recent significant change was the introduction of the single woman's Dependent Relative Allowance introduced in 1967.
- Anyone getting one of these allowances now will still have a higher allowance next year (because all these allowances are smaller than the increase in personal allowances next year).

Top slicing

- Top slicing reliefs were introduced to reduce the effect of steeply-rising higher rates of tax on lump sum payments. With the reduction of higher rates of income tax, the need for top slicing has been very much reduced.
- The abolition of top slicing relief is a contribution towards the simplification of the tax system.
- There would be few losers.

This is very much a first cut at the presentational Bull Points, and more work is needed on the overall themes of the Budget.

John Major

pp JOHN MAJOR

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mpj

COPY No SPJ/14/ 2 OF 23

FROM: S P JUDGE

DATE: 2 March 1988

MISS SIMPSON

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
PS/Sir Peter Middleton
Sir Geoffrey Littler
Mr Scholar
Mr Culpin
Mr Pickford
Mr R I G Allen
Miss Sinclair
Mr Michie
Miss Hay
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call
PS/Inland Revenue
Mr Walker - IR

BUDGET PRESENTATION

The Paymaster General discussed this with you and others yesterday.

2. He worked through the draft Budget Briefs for the subjects for which he has presentational responsibility. The points made are recorded in the Annex to this minute.

3. The following more general points were noted:

- i. the Paymaster would want to discuss at Prayers whether DOE Ministers should issue a Budget Day Press Notice (cleared with the Treasury) on private rented housing, and whether they should call in the British Property Federation, NHBC etc to a meeting soon after the Budget;
- ii. the position on the CGT threshold for trusts (currently £3,300) needed clarification, given the decision on the threshold for individuals;
- iii. in the light of forthcoming decisions by the Financial Secretary, it might be necessary to produce a new brief on wider share ownership;

BUDGET SECRET: TASK FORCE LIST

- iv. it would be sensible to amalgamate the two IHT briefs (E2 and EE2); and
- v. the Paymaster hoped that the Economic Secretary would be able to look at the presentation of the oil package, certain CGT business points (indexation allowance and intra-group share exchanges), and VAT on small businesses (FF12 - mainly Keith).



S P JUDGE
Private Secretary

NM/30

This Annex records minor points made on particular subjects, and amendments agreed to the draft Budget Briefs circulated on 26 February.

D3 - MORTGAGE INTEREST RELIEF

- Positive viii. should refer, in a scholarly way, to factual xvi.

EE1.C - CGT RETIREMENT RELIEF

- The Paymaster's bull point about getting rid of decrepit managers should be worked in;
- the brief should cross-refer to the IHT changes (and vice versa). Between them, the new regimes made it easier to pass on family businesses, either on death or by selling-up beforehand.

EE2 - IHT

- The Revenue had some good information (which Mr Jaundoo had already mentioned to me) comparing the IHT burden on passing on a business worth, say, £1 million. It would be useful to work such figures into the brief;
- answers should be provided to the following two questions:
 - a. what level of IHT does the Government think is right?;
 - b. it is all very well to say that the threshold has been put up substantially, but what about the high starting rate?

FF4 - SECTION 482

- Insert **positive** point mentioning the ending of criminal sanctions, and the transitional provisions;
- **defensive iv.** should make it clear that we were not preempting the Daily Mail case, but simply protecting the Exchequer from similar future migrations;
- **defensive i.** should be recasted along the following lines: "Unjustifiable for some companies to try and avoid tax by going offshore to realise gains"; and

BUDGET SECRET: TASK FORCE LIST

- **defensive iii.** should not refer to the consultations earlier in the 1980s, or to the Government's willingness to listen to opinions during the passage of the Finance Bill.

FF5 - ASSURED TENANCIES

- This brief should make it much clearer that these arrangements were simply of a transitional nature.

FF6 - BES

- It was quite likely that Johnson Fry would diversify into public (sic) housing issues;

- there was no need for any targeted publicity on the BES industry immediately after the Budget;

- **factual vii.** should refer to the "saving" from the £½ million limit, rather than its "yield";

- the general BES package and the private rented housing package should be shown separately in the FSBR;

- **positive iii.** should be moved to **factual**, and should refer to the total equity raised of £700 million over the last five years.

FF7 - PRIVATE RENTED HOUSING

- DOE envisaged substantial promotional activity throughout the rest of the year. The timing would need to be watched, as assured tenancies were unlikely to start before January 1989;

- it was not worth taking pre-emptive defensive action against Sheleter and other Housing Charities;

- **defensive iii.** (comparing the subsidy for renting with the subsidy for home ownership) was tricky. Mr Reed agreed to provide an early note on this;

- a **defensive** point on overseas landlords should be inserted; and

- the "kick-start" point had both positive and defensive angles.

BUDGET SECRET: TASK FORCE LIST

FF11 - BUSINESS ENTERTAINMENT

Section A

- Factual iii. should read "Budget Day unless under contract ...".

Section B

- There was some scope for rebutting claims that this would hit exports by noting that the allowance for importers entertaining overseas contacts was also being discontinued;

- it should be made clearer that the UK was voluntarily tearing up a derogation from the Sixth VAT Directive. The Paymaster General thought it might be worthwhile sending a postcard to Lord Cockfield, drawing this to his attention!

2 MARCH 1988

EST/88/4

BUDGET SECRET : TASK FORCE LIST



FROM: ECONOMIC SECRETARY

DATE: 2 March 1988

CHANCELLOR

There is some "70 top" ... 5% ... IR statistics ... 3(ii) ...

- cc Chief Secretary
Financial Secretary
Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr R I G Allen
Mr Pickford
Mr Riley
Miss C Evans
Mr Cropper
Mr Tyrie
Mr Call
Mr Isaac - IR
Mr Painter - IR
Mr Lewis - IR
Mr Mace - IR
Mr Eason - IR
PS/IR

BUDGET PRESENTATION : INCOME TAX

At the Overview it was agreed that to demonstrate the supply side revenue effect of cutting top tax rates we should rely exclusively on the rising proportion of income tax revenues accounted for by the top X% of income earners.

2. I accept that we should focus on this figure for our presentation. But it is open to criticism in debate. So it is useful to have another measure up our sleeve.

3. The two weaknesses of the share of taxes paid by the top X% are:

- i. the top X% is a fixed number of individuals. It cannot therefore reflect an increasing number of wealth creators. All the figure reflects is a disproportionate change in their relative pre-tax incomes;

Handwritten notes on the right side of the page, including 'Bank or is', 'check @', 'higher rate', 'starts', 'Mr. Eason', 'Mr. Mace', 'Mr. Lewis', 'Mr. Painter', 'Mr. Isaac', 'PS/IR', 'Mr. Call', 'Mr. Tyrie', 'Mr. Cropper', 'Miss C Evans', 'Mr. Riley', 'Mr. Pickford', 'Mr. R I G Allen', 'Mr. Odling-Smee', 'Mr. Culpin', 'Mr. Scholar', 'Sir T Burns', 'Sir P Middleton', 'Paymaster General', 'Financial Secretary', 'Chief Secretary', 'Financial Secretary', 'FROM: ECONOMIC SECRETARY', 'DATE: 2 March 1988', 'BUDGET SECRET : TASK FORCE LIST', 'EST/88/4', '53/2/LPD/3756/015', 'COPY 1 of 23'.

ii. the top X% of income earners may well include many who are not top rate payers. It is harder to argue that their increased earnings reflect the increased incentive effect of lower top rates.

4. The alternative measure is the share of tax revenues accounted for by the top slice of tax in excess of basic rates.

5. The figures below, kindly provided by Mr Eason, indicate the increasing proportion of income tax liabilities accounted for by higher rate slices (although Mr Eason has stressed that the figures below are provisional and would need to be revised before we could quote them publicly).

£billion 86-87 prices

Year	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87
A. Total income tax liability	38.2	38.5	39.2	39.1	38.2	40.8	42.0	43.0
B. Excess over basic rate	1.3	1.4	1.7	1.7	1.6	1.9	2.1	2.4
C. A as % age of B	3.4	3.6	4.4	4.4	4.3	4.6	4.9	5.5

I understand from Mr Eason that the percentage of total income tax liability represented by the higher income tax slices will be even higher in 1987-88. He estimates this at over 6 per cent.

6. I hope you will agree that this is a useful presentational point, and that it would be worth asking the Revenue to produce updated figures.



PETER LILLEY

**BUDGET SECRET
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REF No ACSA/24
COPY NO 23 OF 24

FROM: A C S ALLAN
DATE: 2 March 1988

MR CULPIN

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr Riley
Miss C Evans
Mr Hudson
Miss Simpson
Mr Cropper
Mr Tyrie
Mr Call
PS/IR
Mr P R H Allen - C&E

BUDGET: PACKAGING

The Chancellor has been considering further the packaging suggestions attached to Miss Simpson's note of 17 February; he has also seen (and agrees with) Mr P R H Allen's minute of 23 February.

- ... 2. I attach an annex with his revised packaging.
3. He commented that we should not put independent taxation in a simplification package: this, like the CGT rebasing, remedies an injustice. On balance, he felt that there was not a useful separate category of "simplification", over and above reform.

ACSA

A C S ALLAN

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BUDGET PACKAGES

Please redo

- 1. Reform *and simplification*
 - Independent taxation
 - Higher rate restructuring
 - Maintenance & Covenants
 - Mortgages - residence basis
 - Mortgages - home improvement loans
 - CGT package
 - IHT package

- Minor reforms/simplifications
 - Minor personal allowances
 - Lloyd's
 - Top slicing relief
 - ~~Minor perks~~ *Minor perks (car parking & 3rd party entertainment)*

2. Reducing Burdens

- Income tax rates & allowances
- CGT package ~~(the reduced rate companies)~~ *including inc. companies (and) CT on (gains)*
- IHT changes

North Sea changes

3. Removal of unjustified tax breaks

- Car benefits etc
- Forestry
- ~~Home improvement reliefs~~ *Mortgages - residence basis*
- APA for cohabiting couples
- Top slicing
- Keith

4. Business

- CT rates & rebasing
- Importers' details
- Business entertainment
- Capital duty
- Building societies incorporation

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Employee share schemes

Lloyd's

Section 482

~~VED/DERV rates~~

Importers' details
Importers' details

5. Small Business

BES

VAT threshold

Small companies' CT rate

IHT package

CGT retirement relief

~~6. Supply side measures~~

~~Private rented housing~~

~~Importers' details~~

~~Employee share schemes~~

~~CGT retirement relief~~

~~IHT~~

~~- and practically everything else!~~

6. Housing

BES for building for private rent

Assured tenancies

Mortgages - residence basis

Mortgages - home improvement relief

7. Mu

Excise duties

Payroll giving

PEPs

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COPY NO 24 OF 24

FROM: J M G TAYLOR

DATE: 3 March 1988

PS/ECONOMIC SECRETARY

cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 Sir P Middleton
 Sir T Burns
 Mr Scholar
 Mr Culpin
 Mr Odling-Smee
 Mr R I G Allen
 Mr Pickford
 Mr Riley
 Miss C Evans
 Mr Cropper
 Mr Tyrie
 Mr Call
 Mr Isaac - IR
 Mr Painter - IR
 Mr Lewis - IR
 Mr Mace - IR
 Mr Eason - IR
 PS/IR

BUDGET PRESENTATION: INCOME TAX

The Chancellor has seen the Economic Secretary's minute of 2 March.

2. He thinks there may be a misunderstanding here. The "top 5 per cent", as he understands it, and as Inland Revenue statistics define it, means the top 5 per cent of taxable incomes. Thus paragraph 3(ii) does not apply, nor is the crucial last sentence of paragraph 3(i) correct, although that is certainly one element.

3. The Chancellor agrees, however, that it is useful also to have figures for the proportion of total IT yield that is contributed by the higher rate(s). But it is important, in this context, to check at what multiple of average earnings the higher rate starts to bite in each year.

A handwritten signature, likely of J M G Taylor, consisting of stylized initials.

J M G TAYLOR

BUDGET SECRET - TASK FORCE LIST



COPY NO. 16 OF 17 .

FROM: A C S ALLAN

DATE: 4 March 1988

MR EASON - Inland Revenue

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

BUDGET INCOME TAX PACKAGE

The Chancellor has been considering further your minute of 2 March. He would be grateful for urgent advice, by close of play tonight, on what the costs of the package would be if no further widening of the earnings distribution was assumed after 1987.

A handwritten signature in black ink that reads 'A C S A' with a long horizontal stroke underneath.

A C S ALLAN



Inland Revenue

Policy Division
Somerset House

FROM: M A HILL

DATE: 4 MARCH 1988

1. MR JOHNS *my 4/3*
2. ECONOMIC SECRETARY

OIL: BUDGET PRESENTATION

1. As background for Monday afternoon's meeting, we thought you might find it helpful to have at this stage various documents relating to the presentation of the Budget oil changes.

Press notices

2. Annex A is a slightly revised version of the Inland Revenue Budget day press release. We have amended the third paragraph in an attempt to meet the point you yourself made on the first draft (Mr Barnes 3 March note to PS/Chancellor). Second, since submitting that first draft to the Chancellor last week, we have shown the part relating to the Southern Basin restructuring to our Department of Energy colleagues. They have suggested one or two minor changes - indicated by the underlining - all of which seem to us harmless enough.

cc	Chancellor of the Exchequer ← Chief Secretary Financial Secretary Paymaster General Mr Scholar Mr Culpin Mr Williams Miss Sinclair Miss Hay Mr Cropper Mr Tyrie	Mr Painter Mr Beighton Mr Johns Mr Elliss Miss Hill Mrs Hubbard Mr Walker Miss McFarlane PS/IR
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Inland Revenue

Policy Division
Somerset House

FROM: MISS M A BARLOW

DATE: 4 MARCH 1988

1. MR CORLETT *maB*
2. PS/ECONOMIC SECRETARY

KEITH: BUDGET PRESENTATION

I attach a revised provisional draft of the Inland Revenue Keith Budget Press Release "Measures to improve tax compliance", in preparation for the Economic Secretary's meeting on Monday 7 March.

M A Barlow

MISS M A BARLOW

cc PS/Chancellor
PS/Financial Secretary
Mr R I G Allen
Mr Pickford
Mr Mitchie
Miss Hay
Mr Cropper

Mr Trevett C&E
Mr Corlett
Mr Walker
Miss McFarlane
Mr Shaw
PS/IR
Miss Barlow

RUDGET CONFIDENTIAL
DRAFT BUDGET DAY PRESS RELEASE

[3x]

15 March 1988

MEASURES TO IMPROVE TAX COMPLIANCE

The Chancellor proposes in his Budget to introduce measures designed to encourage taxpayers to tell the Inland Revenue about additional tax liability and to help the Revenue uncover taxpayers who fail to do so, particularly where there is reason to believe that large amounts of tax are being lost.

These measures are based on recommendations of the Keith Committee and take account of extensive consultations with business and professional organisations.

Some of these measures will take effect immediately; others will not be implemented until 1992 at the earliest.

DETAILS

1. The proposals are designed to ensure that the Inland Revenue gets the information it needs, and at the right time, so that the tax liabilities of individuals and businesses can be properly settled. The proposals cover

- tougher, tax related, penalties for failing to notify liability to tax;
 - the provision of information about serious tax defaulters;
 - the provision of information by Government Departments and public authorities; and by the Department of National Savings.
- /- access by the

- access by the Inland Revenue to records held on computer; and
- an interest charge where employers delay payment to the Revenue of PAYE and subcontractors deductions.

Failure to notify liability to tax

2. It is proposed to introduce a tougher and more realistic penalty for failing to tell the Revenue about additional tax liability.

3. Most taxpayers who are not sent returns already pay the right amount of tax through PAYE deductions or other deductions at source and the Revenue needs no further information from them. Those whose full liability is not met in this way, such as the self-employed, or higher rate taxpayers, are asked to make a return every year - provided the Revenue knows that this is needed. A taxpayer who has not received a return form but has further liability - for example because he has become self-employed - is required to tell the Revenue within twelve months after the end of the tax year. If he does not do so, the present penalty is a maximum of £100. This penalty is now very much out of date. It is also far less severe than the penalty of up to 100% (200% in the case of fraud) of the tax evaded for someone who identifies himself to the Revenue and fills in a tax return, but does so incorrectly.

4. It is proposed to make the penalty for not telling the Revenue about additional tax liability the same as the penalty for making an incorrect return, that is up to 100% of the tax evaded. Penalties for failure to notify liability to capital gains tax and corporation tax will similarly be made tax-geared.

5. It will also be made clear that the taxpayer must tell the Revenue about each additional source of income. For instance, although he may already be a PAYE taxpayer, he must still tell the Revenue if he starts a business in his spare time. Taxpayers will not, however, have to tell the Revenue about additional sources of income if no more tax is due. For instance a PAYE taxpayer would only have to tell the Revenue about bank or building society interest (which is already taxed) if he pays tax at higher rates and has not received a return.

6. The new rules will come into effect for the 1988/89 tax year. This means that the new penalty will not start until 6 April 1990.

/Information to be

Information to be supplied by Government Departments and Public Authorities

7. The Revenue can ask businesses for certain kinds of information - for example, interest payments by banks, or payments by businesses for services. This information helps to ensure that the recipients are taxed correctly. It can also help identify taxpayers who have made false returns or are working in the black economy.

8. The Revenue cannot, however, ask Government Departments or, with some exceptions, other public authorities for this kind of information. It is proposed to put Government Departments and public bodies on broadly the same footing as businesses.

9. The information covered by this change will include:

- payments made by Government Departments or other public authorities for services rendered;
- payments of grants or subsidies out of public or EC funds; for example housing benefit paid directly to landlords by local authorities,
- names of business licence holders - for example taxi drivers' or market stall holders' licences from a local authority. (Items such as dog or TV licences are not included.)

Information about serious tax defaulters

10. It is proposed to permit the Revenue to call for information about persons whose identity is not known to the Revenue, but who are suspected of serious tax default.

11. The Revenue can already ask for information about a particular, named taxpayer. But this authority does not cover documents giving the names of people the Revenue cannot identify, even where it is known that something is seriously amiss. This might happen, for example, where a tax avoidance scheme is marketed, which the Revenue investigate and establish to be not legally effective. The sponsor of the scheme may have told his clients that there is no tax liability on the profits covered by the scheme and no need to include them in their tax returns. There may therefore be reason to believe that there are large amounts of income which are liable to tax, but which have not been reported to the Inland Revenue.

/12. The proposal

12. The proposal will enable the Inspector - but only after obtaining the approval of a Special Commissioner - to require the sponsor to reveal information about those using the failed scheme. The new power will be restricted to cases of serious tax loss; and an order from the Board of Inland Revenue will be needed before the Inspector may apply to the Commissioner. The person asked to supply the information will be able to challenge the order if he believes it to be unreasonably onerous.

Information from the Department of National Savings

13. It is proposed that the Revenue shall be able to ask the Department of National Savings for information about a particular, named taxpayer, in the same way as they can already ask for information from any other bank.

14. It is proposed that all the changes concerning the provision of information to the Revenue should come into effect when the Finance Bill becomes law.

Interest on PAYE paid over late by employers

15. It is proposed to introduce a power to charge interest in due course on PAYE paid over late by employers. This is to encourage employers to pay on time, and to compensate the Exchequer if they do not.

16. The majority of employers pay over the PAYE and NIC they deduct from their employees promptly or within a short time after the due date. But there are a significant number who are seriously behind with their payments; and, as the law does not provide for it, they incur no interest charge on the money withheld.

17. It is proposed to introduce an interest charge on PAYE and subcontractors deductions delayed beyond the normal end of year payment date. The charge will not be implemented until the necessary computer support is in place, which will not be before 1992.

18. The DHSS are to make similar provision to introduce an interest charge on late payments of Class 1 NIC (which is collected together with PAYE) and Class 4 NIC (which is collected together with Schedule D income tax).

Access to Computer Records

19. The Revenue is allowed to inspect some a a trader's books for certain purposes, for instance, to see his pay records to check that PAYE deductions are being made properly. It is proposed to extend this right of inspection to the same records when they are held on a computer. This is necessary as an increasing proportion of business records are now stored on computers.

/20. Access to

20. Access to computer records would normally be arranged with the assistance of the business's own computer staff. Where, exceptionally, it was necessary for Revenue staff to have direct access, this would only be done by officers with suitable computer experience.

Compliance cost assessments

21. Assessments of the compliance costs of proposals affecting businesses are available. A copy of the Compliance Cost Assessment for this proposal can be obtained from:

Inland Revenue
Deregulation Unit
Room 77
New Wing
Somerset House
London, WC2R 1LB

NOTES FOR EDITORS

The Keith Report

1. The Keith Committee on the Enforcement Powers of the Revenue Departments was set up in July 1980 to enquire into the tax enforcement powers of the Board of Inland Revenue and the Board of Customs and Excise. It was chaired by a Law Lord, Lord Keith of Kinkel PC. The committee took evidence from bodies representing industry, trade, the professions and trade unions, as well as from individuals and from the Revenue Departments.
2. The Committee's Report is in 4 volumes. Volumes 1 and 2 were published (Cmnd 8822) on 23 March 1983 and covered income tax, corporation tax, capital gains tax and VAT.
3. Since publication, extensive consultations have been held with a number of representative bodies.
4. Proposals in response to the recommendations in Volumes 1 and 2 of the Report were published in a consultative document "The Inland Revenue and the Taxpayer" in December 1986. This contained 46 draft clauses and 2 draft schedules. Some of the proposals were included in last year's Budget. The measures described above are based on five of the clauses and part of one of the schedules, modified in the light of responses to the consultative document.



FROM: J J HEYWOOD
DATE: 7 March 1988

PRINCIPAL PRIVATE SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Scholar
Mr Culpin
Mr Pickford
Miss Simpson
PS/IR

*In the light of
this, a further
reflection, I have
substantially
Also EST below
package: see
S.482*

BUDGET: PACKAGING

The Financial Secretary had a number of suggestions on the Chancellor's revised packaging (your minute of 2 March).

2. Under "Minor Reforms/Simplifications" (in Section 1) he would have put car parking and third party entertainment. Also in section 1 he would put S.482 and S.79.
3. In section 2 he would put Capital Duty.
4. In Section 3 he would remove home improvement reliefs and insert CGT rate alignment and CGT anti-avoidance measures and also the residence basis.
5. In Section 5 he would put S.79.
6. In Section 6 he would specifically refer to income tax and covenants and maintenance.

J. H.

JEREMY HEYWOOD
Private Secretary

DDPB/88/13

BUDGET SECRET : TASK FORCE LIST



FROM: P D P BARNES
DATE: 7 March 1988

PPS

cc Mr Culpin

BUDGET : PACKAGING

The Economic Secretary has seen your minute to Mr Culpin of 2 March.

2. The Economic Secretary suggests re-labelling the first component of the package "reform and simplification".

3. The Economic Secretary thinks it would be worth listing the oil measures both under "business" and under "supply side".

*OK to (2), all + more
on minimum to business*

PB

P D P BARNES
Private Secretary

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COPY NO. 23 OF 24

FROM: A C S ALLAN

DATE: 8 March 1988

MR CULPIN

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Odling-Smee
Mr R I G Allen
Mr Pickford
Miss Sinclair
Mr Riley
Miss C Evans
Mr Hudson
Miss Simpson
Mr Cropper
Mr Tyrie
Mr Call
PS/IR
Mr P R H Allen C&E

BUDGET: PACKAGING

The Chancellor has seen the Financial Secretary's and Economic Secretary's comments on the revised packaging. In the light of these and on further reflection, he has revised the ... packaging as attached.

ACSA

A C S ALLAN

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ANNEX

BUDGET PACKAGES

1. Reform and simplification

Independent taxation

Higher rate restructuring

Maintenance & Covenants

Mortgages - residence basis

Mortgages - home improvement loans

CGT package

IHT package

Capital duty

Minor reforms/simplifications

- Minor personal allowances

- Lloyd's

- Top slicing relief

- Minor perks (car parking and 3rd party entertainment)

2. Reducing Burdens

Income tax rates & allowances

CGT package (including CT on company gains)

IHT changes

3. Removal of unjustified tax breaks

Car benefits etc

Forestry

Mortgages - residence basis

APA for cohabiting couples

Top slicing

Keith

4. Business

CT rates & rebasing

Importers' details

Business entertainment

Building societies incorporation

North Sea changes

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Employee share schemes
Lloyd's
Section 482
Importers' details

5. Small Business

BES
VAT threshold
Small companies' CT rate
IHT package
CGT retirement relief

6. Housing

BES for building for private rent
Assured tenancies
Mortgages - residence basis
Mortgages - home improvement relief

7. Other

Excise duties
Payroll giving
PEPs

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