PO-CH/NL/0388
PART B

SECRET

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PART B

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PART B

1988 CAPITAL ALLOWANCE: MORTGAGE INTEREST RELIEF TAX TREATMENT OF PRIVATE RENTING AND FRINGE BENEFITS

DD's 25 years NAZ3 7-12-95.

29.2.88

CHANCELLOR OF THE EXCHEQUER

Ch.

This meeting was initiated by Mr Ridley.

FP are preparing a short aide-memoire on points to make.

We shall forward this tomorrow. Meanwhile, briefing pps. enclosed.

NW

16/2

Ch.

You may like to mention to Ld. Young your plans for the tax treatment of car benefits. (Mr Monck is doing a short aide-memoire on this, which we shall forward tomorrow).

16/2

SIR

BUDGET CONFIDENTIAL

Inland Revenue

Policy Division
Somerset House

FROM M A JOHNS
DATE 12 FEBRUARY 1988

CHANCELLOR OF THE EXCHEQUER

Confirmed in

MORTGAGE INTEREST RELIEF: CEILING

I understand that at Monday's Overview meeting you expressed the view that you did not expect to raise the mortgage interest relief ceiling from £30,000. It would be very helpful if this could now be confirmed as a final decision.

This is because you have agreed that if the ceiling is increased, the present ceiling will continue to apply to protected loans for unmarried sharers taken out before 1 August). A Provisional Collection of Taxes Act resolution would be needed during the period before Royal Assent to apply the increased ceiling only to non-protected loans. Such a PCTA resolution has to be fully

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cc 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 Culpin
Mr Sedgwick
Mr Odling-Smee
Miss Sinclair
Mr Riley
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
PPS
Mr Unwin (C&E)
Mr Knox (C&E)
Mr Jenkins (Parliamentary Counsel)

Chairman
Mr Painter
Mr Isaac
Mr Beighton
Mr Johns
Mr O'Connor
PS/IR

JOHNS
CH EX
12/2

drafted by Budget Day as it is published on that day and takes effect at the end of the Budget debate. Moreover complications then arise if the Bill is amended so that it differs from the resolution. Parliamentary Counsel advises that it will be difficult to draft (even to the point that we might have to consider different transitional provisions) so a decision is needed at once if the problem has to be solved. If it is unnecessary it would be a serious waste of resources to divert Counsel's time to solving the problem on a provisional basis.

M.A. Johns

M A JOHNS

BUDGET CONFIDENTIAL

H.M. CUSTOMS AND EXCISE
NEW KING'S BEAM HOUSE
22 UPPER GROUND
LONDON SE1 9PJ

Telephone 01 620 1313 Ext. 5023

FROM: P R H ALLEN

DATE 19 February 1988

CHANCELLOR

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

DEADLINES FOR DECISIONS

1. You have seen Mr McManus' note of 17 February detailing those Inland Revenue items on which decisions are outstanding. This note looks at Customs and Excise, Treasury and Department of Transport starters.

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

Mon 29 Final

BUDGET CONFIDENTIAL

but could (just) be delayed

2. Our only major outstanding decision is on changes in the rates of excise duty. A final decision is needed by Friday, 26 February to allow us to keep to the optimum timetable for preparation and printing of Budget information material.

3. There are no outstanding decisions about the inclusion or otherwise of any of our minor starters. There are a number of technical matters affecting individual starters which are being dealt with in submissions to the Economic Secretary (eg Mr Wilmott's note of 17 February about starter 63). The most significant of these concerns starter 60 (disclosure of importers' details), where we have reservations about the DTI's proposal that the scheme should run initially as an experiment for one year. A submission to the Economic Secretary on this will be going up shortly.

4. All the Treasury's starters have been dropped.

5. As far as the Department of Transport's starters are concerned, the deadline for changing the rates of VED has already passed (Mr Culpin's note of 15 February refers). The one outstanding point here is the proposal to introduce a minimum threshold for VED refunds. Department of Transport are pressing for this in order to reduce their running costs. Treasury Ministers are resisting the proposal because they are not convinced that the benefit would outweigh the political difficulties.

Alison Frank
for P R H ALLEN
DPU

Ref HMM/2

BUDGET SECRET TASK FORCE LIST ONLY

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

FROM: THE CHAIRMAN
DATE: 4 February 1988

CHANCELLOR OF THE EXCHEQUER

cc Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Cropper

COPY 1 OF 10

Ch
NB X overleaf.
A sweetener in 1987-88
could be quite attractive)!
AAA
Yes.

CUSTOMS POINTS

There are no Customs points on the main agenda for your overview meeting next Monday (8 February). But there are a couple of points that you may like to keep at the back of your mind over the coming period:-

i. Decision dates: On the assumption that there will be no basic VAT changes or excise duty structural changes in the budget, we should ideally like to have final decisions on excise duty rate changes by Friday, 26 February. This will minimise any risk of the arrangements going wrong. But, at a pinch, we could stretch this until the following Friday, 4 March, if there is delay. The outstanding issue, of course, at present is whether to go for the (weighted) double revalorisation option;

ii. Duty deferment: As I mentioned briefly to you after last Monday's meeting, if you do decide on double revalorisation (raising an extra £545m in 1988-89) there might be a case for an extra month's duty deferment for wines and spirits. It would be an

easement for the trade (who have included it in representations to you), and from a technical angle we should actually welcome it. It would reduce the scope for errors in the present accounting arrangements; and extending the period from one month to two months would make it easier for us to resist pressures to proliferate distribution warehouses. The once and for all PSBR cost would, however, be around £250m. And the snag is that there would be pressure to give a similar extension to beer and cider, and that would put the cost up to £400m. The cost would fall in 1987-88 or 1988-89 depending on whether the extra month was given in March 1988 or later.

J B UNWIN

INTERNAL CIRCULATION:

Mr Knox
Mr Jefferson Smith
Mr Allan

RT8.38

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

20 March 1986

J Hibbert Esq
Director of Statistics and
Head of Central Statistical Office
Government Office
Great George Street
LONDON SW1

The Chancellor has asked ~~I should be grateful if you would~~ pass on to the CSO graphics unit ~~my thanks~~ for the extra work that was done this year on the Financial Statement and Budget Report.

We are always very grateful for the work done by the Unit in drawing up charts and diagrams for the FSBR. But this year I was very much aware of the additional work that was required of them in order to assist with the development of the improved style of the FSBR. In addition, a great deal of extra work was required in producing new charts for the Economic Progress Report Supplement which was published on Budget day.

~~We asked~~ A great deal of the unit, at short notice, and I appreciate very much the way they responded.

NIGEL LAWSON

MRS R LOMAX

IOD

THE VOICE OF BUSINESS LEADERS

For further information contact:

Gordon Leak: 01 839 1233 Ext. 2282 (Office)
C89 273 265 (Home)

Felicity Bull: 01 839 1233 Ext. 2285 (Office)
01 241 1920 (Home)

EMBARGO: 0001hrs. SUNDAY 6 MARCH 1988

PRESS RELEASE

BUSINESS NEEDS A BUDGET BOOST - IOD

Chancellor of the Exchequer Nigel Lawson is warned today that confidence among business leaders about the future prospects of their companies and the UK economy has been checked and needs a boost from a bold Budget.

A pre-Budget Business Opinion Survey by the Institute of Directors shows that 86 per cent of directors say their companies are still doing "very well" or "fairly well".

But the number of business leaders who feel "more optimistic" about their companies prospects than they were six months ago has fallen from 61 per cent to 59 per cent.

Confidence about the UK economy in general has gone into sharper decline with 31 per cent saying they are "less optimistic" in the February survey compared with 21 per cent in December and only 4 per cent last October.

The survey, conducted in the first two weeks of February, shows 77 per cent of directors reporting an increase in the volume of their business over the past six months - three points down since December. There has also been a three point fall in the number recording higher profits.

Ten per cent of direcors now report that the trend in the volume of their business is down, compared with 6 per cent in December and 17 per cent reported lower profits compared with 12 per cent in December.

Evidence that there has been a slight slowdown in economic activity is reinforced by the responses in the survey on employment levels in their companies to rise over the next six months, this is a fall of 4 points since December and 17 points since the October 1987 survey.

Labour supply remains the main area of concern for 19 per cent of business leaders but this compares with a peak of 32 per cent in October.

Judith Chaplin, Head of the IOD Policy Unit said "There is evidence in this survey that some companies are experiencing a slowdown in business and growing numbers of business leaders are less confident about the future.

"It reinforces our judgement that the economy is not overheating and that the Chancellor should not be over-cautious in his Budget".

Over points from the survey:

* Cash Flow has overtaken labour supply as the "main concern" of directors over the next six months with 22 per cent reporting it to be a problem.
* Industrial Unrest is reported to be a business concern by 5 per cent of directors compared with 1 per cent in December.
* Variance of Marketing Effort is given by 75 per cent of directors as the main activity to improve company performance.

NOTE TO EDITORS

The IOD Business Opinion Survey was carried out by telephone among a structured sample panel of company chairmen, managing directors and other board executives in the first week of February.

The IOD represents 35,000 business men and women worldwide, with over 29,000 in the UK. There are IOD members on the boards of over 400 of the Times Top 500 Companies.

BUDGET SECRET: TASK FORCE LIST

PHP

3/37

Inland Revenue

Policy Division
Somerset House

FROM: J H REED
DATE: 12 FEBRUARY 1988

1. MR McGIVERN - approved in draft

2. FINANCIAL SECRETARY

TAX TREATMENT OF PRIVATE RENTED ACCOMMODATION: BES RELIEF

At the meeting between the Chancellor and the Secretary of State for the Environment it was agreed that discussions between officials should take place about the proposed BES relief for private renting. Discussions have been held and this note takes account of them in making recommendations about the details of the proposed relief. It has been seen in draft by FP and LG2.

Outline of the new relief

2. In your note of 8 January to the Chancellor you put forward some tentative

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cc PPS(2)
Chief Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
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Mr Anson
Sir A Wilson
Mr Byatt
Mr Scholar
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Mr Sedgwick
Mr Odling-Smee
Miss Sinclair
Mr Instone
Mr Riley
Miss C Evans
Mr A Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Jenkins (OPC)
Mr Unwin (Customs)
Mr Knox (Customs)

Chairman
Mr Isaac
Mr Painter
Mr McGivern
Mr Beighton
Mr Calder
Mr Cleave
Mr Deacon
Mr Reed
PS/IR

conclusions about the details of the new relief. Essentially it would be a modified form of the BES for companies specialising in residential lets. The relief would, at least normally, be at only half the normal BES rate. You favoured a ceiling on the amount of investment raised by a company which would be eligible for BES relief, although set at a higher level than for other BES companies. You also made various other tentative recommendations. This note reviews all the outstanding issues.

QUALIFYING TENANCIES

3. The starting point is the new assured tenancy scheme being introduced in the Housing Bill (and Housing (Scotland) Bill). Subject to any modifications, the rule would be that a new-style assured tenancy would be a qualifying tenancy for the purposes of the new relief but any other tenancy would not be.

Unimproved properties

4. Your view was that the new relief should cover assured tenancies of newly-built properties and those which had been substantially refurbished. But you were open-minded about whether assured tenancies of other (previously empty) property should be allowed in. DOE's view is that if these lettings were excluded the new relief would not help much in London, where there was the greatest need to increase the supply of rented property. So they wanted those lettings included. This raises a general question about the purpose of the new relief: is it to improve the quality and quantity of the housing stock (in which case the relief should be restricted to new builds and refurbishments) or (and/or maintain) to increase the supply of rented property (in which cases unimproved properties should also be let in). DOE says the latter.

Shorthold tenancies

5. You were inclined against including shorthold tenancies. The argument against these is that because it is easy for the landlord to regain vacant possession when it suits him, the property may remain let only for as long as is necessary to satisfy the requirements of the new BES relief and may then be sold into owner occupation. DOE accept that, for this reason, shorthold tenancies were arguably inferior on housing policy grounds to other assured tenancies but in their view this consideration is outweighed by the need to increase the supply of rented property. They think that there will be more rented accommodation if shorthold tenancies are included and therefore strongly recommend this.

Expensive properties

6. Properties with high rateable values are outside the assured tenancy scheme in England and Wales (there is no equivalent restriction in Scotland). DOE said that the rateable value limits would exclude about 2.5 per cent of dwellings in England. They, and we, think that there is a case for having more restrictive limits for the new BES relief and also for moving away from rateable values (which will not be around much longer in England and Wales and have already disappeared in Scotland). There are two obvious ways in which a limit could be set:

i. by reference to the capital value of each property; and

ii. by reference to the rent paid for each property.

Both DOE and our Valuation Office think that the balance of advantage points towards using capital values.

7. This limit could work along the following lines. The limit would apply to the value of the property at the time it was acquired by the company plus the amount of any expenditure on improving the property (or, in the case of new builds, the

cost of building the property). The tenancy would not cease to be a qualifying tenancy if a subsequent increase in house prices took its value over the limit (withdrawing relief in these circumstances would create undesirable uncertainty).

8. The limit could be set at a level which would be likely not to be too restrictive at any point in the life of the new relief (assumed to be about 5 years - see paragraph 19 below). But this would require a high limit at the start. We think it would be better to set a limit initially and take power to amend this by statutory instrument. If you are attracted by a limit of this kind we shall give more thought to precisely what limits there should be for which parts of the country. DOE have suggested the following limits:

London and SE	£90,000
SW and East Anglia	£75,000
Rest of GB	£65,000

Broadly speaking, these limits would allow in 3 bedroom semi-detached houses in almost all parts of the country and detached houses in many parts.

Sub-standard properties

9. There is nothing in the assured tenancy scheme to prevent it applying to sub-standard properties. But DOE think it would be better not to encourage lettings of such property by bringing them within the new BES relief. They are considering how best they could be excluded.

Letting to students

10. Since writing my paper of 23 December, I have discovered from DOE that the exclusion from the assured tenancy scheme "student lettings" does not apply to ordinary lettings to students (only to those by educational institutions). So there is no need for any special provision in the new BES relief.

Rent paid by housing benefit

11. DOE see nothing objectionable in BES relief being given to provide tenancies under which the rent would effectively be paid by housing benefit (ie, a possible double subsidy). In my earlier paper I said that the Treasury had suggested that you might like us to discuss this issue further with DHSS. If so, do you want us to do this before the Budget (under normal Budget secrecy conditions)?

Assured agricultural occupancies

12. There are special provisions in the Housing Bill (but not the Scottish bill) treating assured agricultural occupancies as assured tenancies. DOE say that these occupancies are typically at nil or very low rates and so fall outside the protection of the Rent Acts. They, and we, see no good case for bringing them within the scope of the BES relief (apart from those, with higher rents, which would anyway qualify as assured tenancies).

Premiums for assured tenancies

13. Assured tenancies could be let on terms which provide for a fairly low rent and a high premium. This is inconsistent with the policy objective of encouraging job mobility (because people may not be able to find the money to pay the premium) and so we and DOE see a case for excluding from the BES relief all tenancies for which a premium is charged.

DISPOSAL OF PROPERTIES

During BES period

14. To avoid the loss of BES relief, the company will be required to carry on its activities as a landlord for a certain period (paragraphs 16 to 18 consider how long this should be). During this qualifying period under normal BES rules it would be able to buy and sell some or all of its properties without BES relief being lost, provided that it

continues its activities as a landlord. This could mean that individual properties might be in the rented sector for only a short time and then be sold into owner occupation. However, since the company would have to continue to act as a landlord it would in practice have to use the sale proceeds to buy other unlet properties which it would then let (subject to the usual BES rule that a relatively small proportion of the company's funds can be used in a non-qualifying way.

15. DOE see nothing objectionable in this, since the BES money is still being used to provide rented accommodation. Furthermore, they think it would be wrong to require a company to hold on to a dwelling which it could not let.

After end of BES period

16. The situation is different after the end of the qualifying period for which the company has to be a landlord. Apart from any security of tenure of the tenants, there would be nothing to stop all the properties being sold into owner-occupation. And if the rate of return on private renting (without the BES relief) is unacceptably low this would be a likely outcome. There is no obvious way of preventing this: all that can be done is to have a long qualifying period.

17. The normal qualifying period, for BES purposes, during which a company must carry on the qualifying activities is 3 years. There would be no difficulty in extending this to 5 years, which is the period for which the shareholders have to retain their shares if they are not to lose BES relief. In principle a still longer qualifying period would be possible. The disadvantage with this is that the shareholders would find it less easy to realise their investments after 5 years. The most likely purchaser would be a property company but the price paid for the shares would probably be at a substantial discount to the asset values. So the investors might prefer to hold on to their shares until the end of the qualifying period. But whichever alternative they would follow, the prospect of being placed in this position would make it less

likely that people would use the new BES relief. So there is a danger that lengthening the qualifying period in order to increase the supply of rented accommodation in the longer term could reduce the supply in the shorter term.

18. There is another consideration which DOE have put to us. Their Secretary of State is concerned that the political risk might deter people from using the BES relief. He therefore sees a case for a 3 year qualifying period. The argument is that the crucial period is the start of the new relief - if this is a success it is more likely to attract investment in future years. So what matters is how the relief is perceived from, say, the beginning of next year (when the new assured tenancy scheme is likely to come into operation) until the end of March (ie, the period which is still the main BES finance raising season). Three years from the end of March runs to March 1992 and if Parliament goes its full term the next potential investors would think there was time for the company to sell its properties after the end of the 3 year qualifying period but before the next Election. The importance of this consideration is clearly a matter of political judgment but you may feel that the timing is so tight if there is to be a sale before the next Election (which itself depends on Parliament running almost its full term) that this consideration is unlikely to have much influence on potential investors.

DURATION OF BES RELIEF

19. You said that you favoured a time limit of 5 years on the duration of the relief. This would mean that shares issued after the limit had expired would not be eligible for relief. The idea behind a time limit is of course that the relief is intended to attract new people into becoming landlords, not to provide a continuing subsidy to the private rented sector.

20. The appropriate length of the time limit is essentially a matter for political judgment. But there is an interaction with the issue of the length of the qualifying period. You were concerned that there should not be two lots of BES relief

for the same property. I have dealt above (paragraph 14) with the case of sales of individual properties (and their replacement by others) during the qualifying period of a BES company. But there is a different question of whether a company which has qualified for the BES relief should be able to sell its properties, after the end of its qualifying period, to another company where investors would also get BES relief.

21. There is an argument that this is not objectionable. The BES relief provides a subsidy to encourage the provision of rented property for a qualifying period and after that the company has a free choice whether to go on renting them or sell them (possibly into owner-occupation). If they were sold to another company whose investors also got BES relief this would help maintain the size of the private rented sector for the length of the qualifying period and so would be consistent with the purpose of BES relief.

22. However, you may feel that this would look odd in the context of a relief designed to attract new people into becoming landlords. If so, you may wish to prevent anything that looks like double BES relief. One possibility would be to prevent particular properties giving rise to multiple relief as a result of successive sales to BES companies. But this would have little practical effect since there would be likely to be other unlet properties on the market for the second BES company to buy.

23. The alternative is to ensure that the time limit for the duration of the BES relief expires before any company's qualifying period could have come to an end. Assuming a 5 year qualifying period the duration of the relief would have therefore to be no more than 5 years.

24. This raises the question of when the relief should come into effect. As I have said, the new assured tenancy scheme is likely to come into operation from the beginning of next

year. It would be possible to bring the new relief into effect at the same time and bring it to an end one day before its fifth anniversary. This would prevent double relief.

25. However, there is a case for bringing the relief into operation earlier. Although the company could not let property immediately it would be able to purchase it and make any necessary refurbishments, or even to start to build new properties. So one possibility would be for the new relief to take effect from, say, the date of Royal Assent to the Finance Bill. On the other hand, the second half of the tax year is normally a slack period for BES issues and so this earlier start might make little difference in practice. The unpredictable element in this is what demand there will be to carry-back BES relief on investments in the first half of 1988-89 and whether this could lead to substantial amounts being raised under the new relief before the end of September.

26. If you were attracted by this option, and you wanted a five year limit on the duration of the new relief, there would of course be a corresponding earlier closing date.

CEILING ON BES FINANCE RAISED BY A COMPANY

27. The amount of the ceiling which will apply generally to BES companies has not yet been decided (we have been looking at figures from £0.25 million to £1 million). You said that you favoured a higher ceiling than for other BES companies. If the aim is to encourage public offers the ceiling would have to be at least £1 million and a higher figure would be more effective (Mr Ridley believes that a limit of £1 million would be too low but DOE have not suggested an alternative.) There is also the question of economies of scale in acting as a landlord. DOE have told us that there are advantages in owning hundreds, rather than tens, of dwellings. 100 dwellings at an average cost of £40,000 would cost £4 million (more in London), although some of this could be raised by borrowing. This might suggest a ceiling of £5 million.

28. There is also the question of the issue costs of a public offer. These tend to be lower as a proportion of the amount raised as the latter increases. For example, the costs for raising £1 million are typically getting on for 20 per cent of the amount raised while for raising £5 million they are normally less than 10 per cent. With only half-BES relief the costs of a public offer raising £1 million could therefore absorb virtually all the tax relief but if it raised £5 million at least half the tax relief should remain. This consideration also suggests a ceiling of about £5 million.

29. But such a high figure would raise questions about the purpose of the ceiling. For conventional BES investment, the purpose of a ceiling is to exclude companies which (usually) would have been able to raise the necessary finance without BES. This consideration does not seem relevant to private renting since the assumption is that whatever scale this is on it will not produce a sufficient return to be attractive without BES. So it is arguable that a ceiling would serve no useful purpose. However, without a ceiling it is in principle possible that a company might seek say £25 million or £50 million for a large development, would Ministers find this unwelcome. If so, a limit of, say, £5 million might be reasonable. You might wish to discuss this with Mr Ridley.

INNER CITIES

30. The possibility of allowing full BES relief for investment in inner cities was raised at an Overview meeting. We have raised this issue with DOE but Mr Ridley has not yet expressed a view (his officials are inclined to favour it). DOE are also considering what definition of "inner cities" would be appropriate. We shall report back to you when we hear from them.

SCOTLAND AND NORTHERN IRELAND

31. An assured tenancy scheme is being introduced in Scotland on similar lines to the one in England and Wales and we assume that you will want the new relief to run in Scotland. We see

no need to talk to the Scottish Office yet but we see a case for letting them know what is proposed after the details have been decided but before the Budget. Do you agree?

32. It has not yet been decided whether to have an assured tenancy scheme in Northern Ireland. Their housing market is different from that in the rest of the UK and it may well be that if it were not for the BES relief the Northern Ireland Office would decide that they did not need an assured tenancy scheme. One possibility would be to accept that the new relief would not run in Northern Ireland unless and until they introduced an assured tenancy scheme (in which case the necessary amendments to the BES relief could be made in a future Finance Bill). Alternatively, it might be possible to extend the relief to Northern Ireland from the start by giving it in respect of tenancies that would be assured tenancies if they were in England or Wales. This might not be straightforward and we would certainly need to discuss this possibility with the Northern Ireland Office. Do you wish us to discuss these possibilities with them before the Budget?

Connections between Investors/Directors and Tenants

33. You recommended that letting to BES investors in the company should be excluded. DOE do not object.

Tied Accommodation/Holiday Homes/Lodgings and Hotels

34. You recommended that all these lettings should be excluded. Tied accommodation will effectively be excluded by the normal BES rule that the BES company cannot be a subsidiary, or under the control, of any other company (so all the BES company could do would be to let to its own employees - which is unlikely to happen on a significant scale). The other lettings will be excluded by the restriction to assured tenancies.

Housing associations

35. You recommended that these should be excluded from the new relief. DOE agree. This may anyway be excluded by the normal BES conditions but if we conclude that there is a risk that some could qualify we propose to draft a specific exclusion.

Interaction with existing assured tenancy scheme

36. Because of the proposed transitional arrangements for phasing out the existing assured tenancy scheme (see Mr Keith's submission of 18 January) it is possible that a BES company providing new style assured tenancies could also qualify for capital allowances. This seems to us and to DOE to be over-generous. We therefore recommend that the legislation should prevent this by denying BES relief.

CONCLUSION

37. There are the following issues to be decided.

i. Do you agree that assured tenancies of previously unlet property should be allowed in even where this was not newly built or subjected to substantial refurbishment (paragraph 4)?

ii. Do you agree that shorthold tenancies should be included (paragraph 5)?

iii. Do you want to exclude assured tenancies of dwellings with a high capital value (paragraph 6)? (If so, we shall come back to you on the question of the precise limits.)

iv. Do you agree that sub-standard properties should be excluded (paragraph 9)?

v. Do you want us to consult DHSS before the Budget about whether they see objections to allowing BES relief for a tenancy under which the rent would be paid by housing benefit (paragraph 11)?

vi. Do you agree that assured agricultural occupancies should be excluded (paragraph 12)?

vii. Do you agree that tenancies for which a premium is charged should be excluded (paragraph 13)?

viii. Do you agree that companies should be free to sell particular properties during the qualifying period provided that they continue to act as landlords (paragraphs 14 and 15)?

ix. Do you want the qualifying period for which a company must act as a landlord to be (paragraphs 17 and 18):

a. 3 years;

b. 5 years; or

c. a longer period?

x. Do you want the new relief to be available for only 5 years (paragraph 19)?

xi. Do you want the new relief to commence (paragraphs 24 and 25):

a. when the Finance Bill receives Royal Assent;

b. when the new assured tenancy scheme comes into operation; or

c. some other date?

xii. Do you want a ceiling for the new relief and if so do you want it to be (paragraphs 27 to 29):

a. £1 million;

b. £5 million; or

c. some other amount?

xiii. We have not yet heard from DOE whether Mr Ridley favours a higher rate of relief companies letting in inner city areas. We shall report back as soon as we hear (paragraph 30).

xiv. Do you want us to talk to the Scottish Office before the Budget (paragraph 31)?

xv. Do you want us to talk to the Northern Ireland Office before the Budget (paragraph 32)?

xvi. Are you still content that the following should be excluded:

a. lettings to BES investors (paragraph 32);

b. tied accommodation, holiday homes, lodgings and hotels (paragraph 33); and

c. housing associations (paragraph 34)?

xvii. Do you agree that BES relief should not be available in respect of dwellings which qualify for capital allowances (paragraph 35)?

KLS

pp J H REED

MC2.1A BUDGET SECRET - TASK FORCE LIST

Copy No. 1 of 10

prp

FROM MARK CALL
DATE: 12 FEBRUARY 1988

CHANCELLOR

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

POST-PRAYERS DISCUSSION: FRIDAY 12 FEBRUARY

1. PAYROLL GIVING LIMIT

There had been some correspondence on whether the limit should be raised to £20 per month, £250 per year, or £300 per year. The Chancellor said he did not believe the figure was criticial, but on balance favoured a doubling to £20 per month. The most important thing was to develop effective publicity for the change, which would have the beneficial side effect of promoting the scheme. Mr Cropper said the Home Office Voluntary Organisations Department was considering promotion, and the Broadcasting Group considering the question of whether charities should be allowed to advertise on television. The Chancellor said he would be more than happy to share the funding of the publicity campaign. The Paymaster General would take responsibility for co-ordinating this issue.

2. BES AND THE PRIVATE RENTED SECTOR

The Chancellor asked for views on the two options which had been put forward: firstly, starting with half-BES and making it up to full BES if the take-up were disappointingly low; or secondly, starting with full BES and clawing it back to a half-BES if take-up was judged to be excessive. The Paymaster General said he was having a meeting on the presentation of this Budget item this afternoon, but that his initial reaction was that the combination

of a BES scheme which was favourable to landlords with a perceived erosion of tenants' rights with regard to Rent Officers' decisions could raise the temperature uncomfortably. The Chancellor was not sure that the BES proposals would exacerbate the problem. The Economic Secretary pointed out that the tax benefit would be going to the investor and not the landlord. Another paper on this was expected shortly from the Inland Revenue, and further discussion was deferred.

3. ALLOWANCES

Under independent taxation the titles Basic Allowance or Standard Allowance had been proposed. Ministers, however, preferred retention of the title Personal Allowance. The Age Allowance tended to be referred to as such and it was thought that the Personal Allowance was unlikely to be confused with personal allowances. There was no reason to change the name of the MCA. The Financial Secretary would discuss with officials the implications of adopting this nomenclature.

MC

MARK CALL

025/3651

BUDGET SECRET: TASK FORCE LIST

Copy no 1 of 20

FROM: A G TYRIE

DATE: 12 FEBRUARY 1988

CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Mr Wilson
Mr Byatt
Mr Scholar
Mr Culpin
Ms Sinclair
Mr Instone
Mr Painter
Mr Cropper
Mr Call

TAX RELIEF FOR THE PRIVATE RENTED SECTOR

I have seen Mr Painter's minute of 11 February and also Mr Reed's note to the Financial Secretary.

Trading versus BES relief

DoE like trading relief because they think it would stop the haemorrhage of the existing private rented sector. It may do but I am not a supporter. Trading relief scores poorly as an encouragement to additional accommodation and (unlike BES where the damage is circumscribed) it threatens to muck up the tax system. Once in place I think it would be pretty difficult to remove trading relief. By contrast, sooner or later we are going to want to scrub the whole of BES anyway.

Full BES versus half BES

As the Revenue paper admits, the estimates of take-up and hence

cost are pretty flimsy. The numbers (understandably so) are guesswork and I don't think they bring us much closer to decisions.

Overall I find my inclination towards full BES reinforced by the paper attached to Mr Painter's minute. Much BES investment is already pretty 'safe', as asset backed as it can be. Even when fully asset backed schemes could obtain relief at 60% the take up was not enormous. Bricks and mortar might be more attractive than wine but I doubt that much more attractive.

Politically, I think it's important that the scheme gets off to a good start. As I said in an earlier note, I thinks it's easier to rein back a successful scheme, than to start with half BES and have to put it up, thereby admitting it was a flop. We can time-limit the availability of relief and the tax loss, anyway.

3 year or 5 year qualifying period?

The principal risk for the investor is probably not economic, but political. The risk that a subsequent government might curtail BES inspired landlord property rights (just as previous Governments have in the past in the rest of the private rented sector) will make investment in the sector at all look pretty risky.

The virtue of a qualifying period of three years is that investors would have a much better chance of being able to get out before another government could change the rules. I side with Mr Ridley on this (Mr Reed's paragraph 18). I am also attracted to permitting relief to operate from the date of Royal Assent this year. This would enable BES schemes to prepare for the start

of the new assured tenancy scheme, expected to be on the statute book in early 1989. There may be hidden snags to this (Reed, paragraph 25) and it needs careful examination.

Miscellaneous

Mr Reed's paper raises a number of other detailed issues. I favour a less restrictive approach for most of them:

i. A capital value limit at least as high as £90,000 for London (Reed paragraph 8).

ii. Not excluding so-called substandard properties. (Mr Reed's paragraph 9.) Why not let the market decide? Clearly they should satisfy the most basic health and safety standards, that is all. Any improvements a BES company made would be subject to the usual (and stringent) building regulations already in force.

iii. No prevention of subsequent sale into owner-occupation after the end of the qualifying period. (Mr Reed's paragraph 16.) Again, if we really have market rents, we can leave the market to decide between more letting and sale.

iv. A high ceiling on the amount a BES company may raise (with relief), of at least £5 million. (Mr Reed, paragraph 27-8).

On one item I err on the side of caution.

v. We need to think very carefully before extending the scheme to tenancies which are paid from Housing Benefit (HB). DoE advise that they see no harm in permitting this (Mr Reed, paragraph 11), but I think it may be a banana skin.

A disproportionate number of 'hard cases', vulnerable groups such as one parent families, the unemployed, etc are receiving HB. Misbehaviour by BES landlords involving this group of tenants would take us straight back into Rackmanism and the Government would be in the front line.

I am not so concerned about the 'double subsidy' element. We would have to pay HB anyway; in other circumstances it would be healthy to substitute a little public provision with private rented housing.

I have still left a lot of loose ends untouched.

Summary

Overall, if we opt for BES we should give it a good chance of working from the start. We can rein back relief later.

A G TYRIE

CONFIDENTIAL

Inland Revenue

The Board Room
Somerset House
London WC2R 1LB

FROM: A J G ISAAC
12 February 1988

CHANCELLOR OF THE EXCHEQUER

MORTGAGE RELIEF

1. You have asked (Mr Allan's note of 10 February) why the doctrine that "mortgage interest relief is only given to people who pay mortgage interest" does not apply to loans subsidised by an employer.

The Money Box Case

2. First, a word about the case discussed on "Money Box". For most purposes - as in this case - we give relief (under MIRAS or elsewhere) only for interest actually paid, and we charge tax only on interest actually received. There is no "deeming" or "imputation" of interest for taxing or relief from tax (Schedule A on owner-occupied houses was abolished long ago).

---

cc Financial Secretary
Sir P Middleton
Sir T Burns
Mr Scholar
Mr Culpin
Mr Riley
Mr Cropper
Mr Battishill
Mr Painter
Mr Lewis
Mr Johns
Mr Beighton
Mr Prescott
Miss Rhodes
Mr O'Connor
PS/IR

3. This will remain the position under your curent proposals for MIRAS, subject to two points of detail: first, the "residence basis" will remove the kind of case actually discussed on Money Box; second, you will for the first time give relief (in married couples) for interest which has been paid, but not by the taxpayer himself (or herself) claiming relief. The Annex gives some further details.

Employer-subsidised loans

4. We are here dealing with a very different situation. To impose a tax charge on interest-free (or other subsidised) loans from employers, we obviously need (in conceptual terms) to "impute" interest to the taxpayer or (if you prefer) "deem" him to have received income (which he has not actually received) in order to pay interest (which he has not actually paid). As the legislation is now framed, the "imputed" income side of this equation is taxable; the "imputed" interest side is entitled to tax relief if, but only if, it qualifies for tax relief under the normal rules.

5. Mr Lewis's note yesterday explained the technicalities: how the 1976 legislation is framed. The rationale for the 1976 legislation is, of course, "fiscal neutrality". The intention - and the result in practice - is that, so far as tax is concerned, employers and employees neither gain an advantage nor suffer a disadvantage, if they give subsidised mortgage loans, as against paying straightforward cash. (The problem, as for all benefits, is with the NIC anomaly, hovering uncertainly somewhere between a tax and a contribution).

6. As we discussed at the last Overview meeting, your proposal to pursue the option at 6(a) and (c) of my note of 3 February would, achieve the result (very broadly speaking) that an amount of mortgage interest would no longer be "imputed" to the employee for the purposes of MIRAS tax relief, but it would continue to be imputed to him for the purposes of liability to tax. Thus, the

employere would be taxed on a notional amount of income (which he has not received), but denied relief on the equivalent notional interest.

7. Mr Lewis asks (in paragraphs 7 to 10) whether we should apply the same treatment to other employer subsidised loans, where the interest normally qualifies for tax relief; or whether we should maintain the present "fiscal neutrality" for these.

A J G ISAAC

UNDER 1400CC CAR:IT OPTION 3

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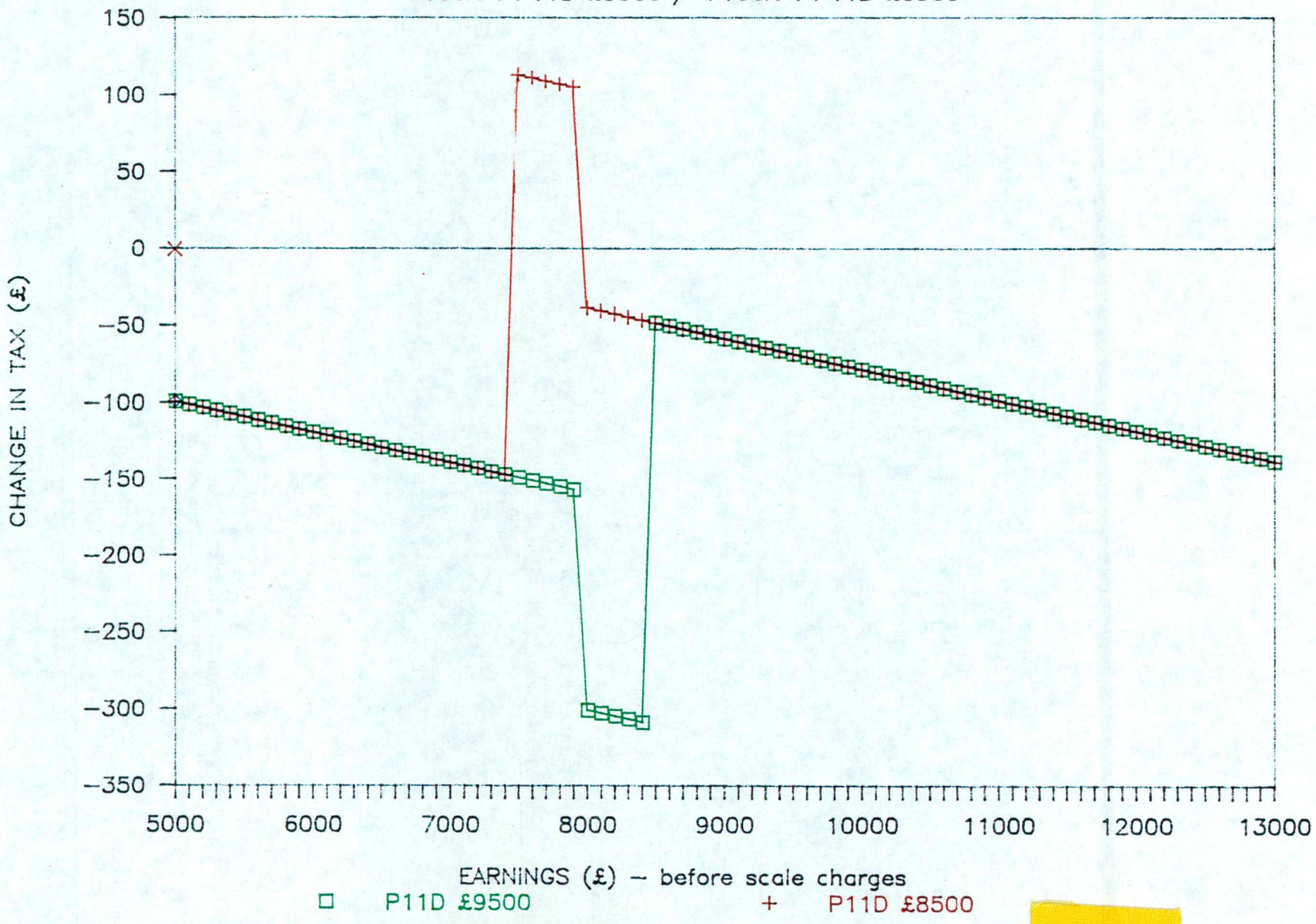

ANNEX A
CHART 1

ANNEX A

ANNEX A

CHART 2

1401–2000CC CAR:IT OPTION 3

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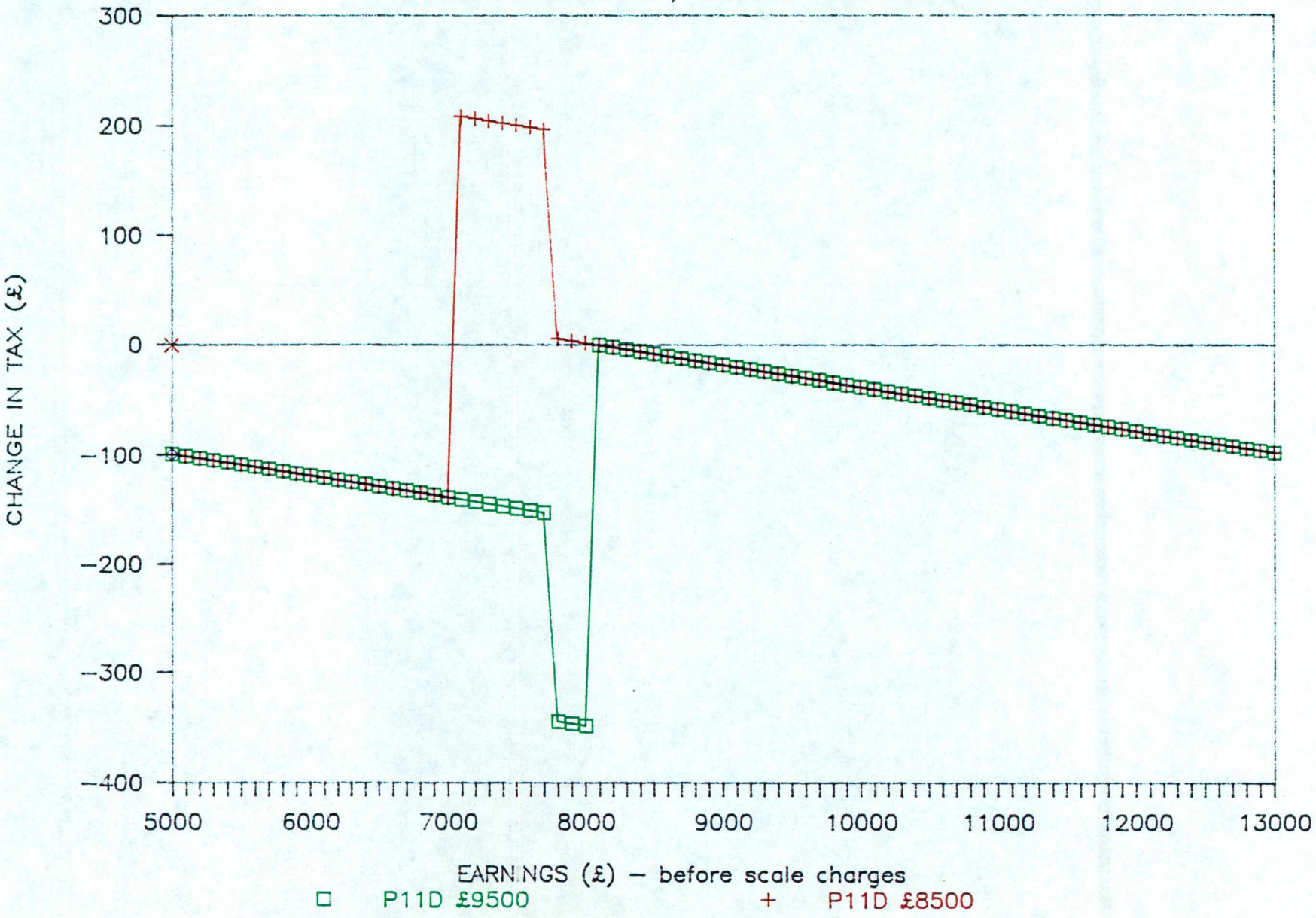

ANNEX A

CHART 3

OVER 2000CC CAR:IT OPTION 3

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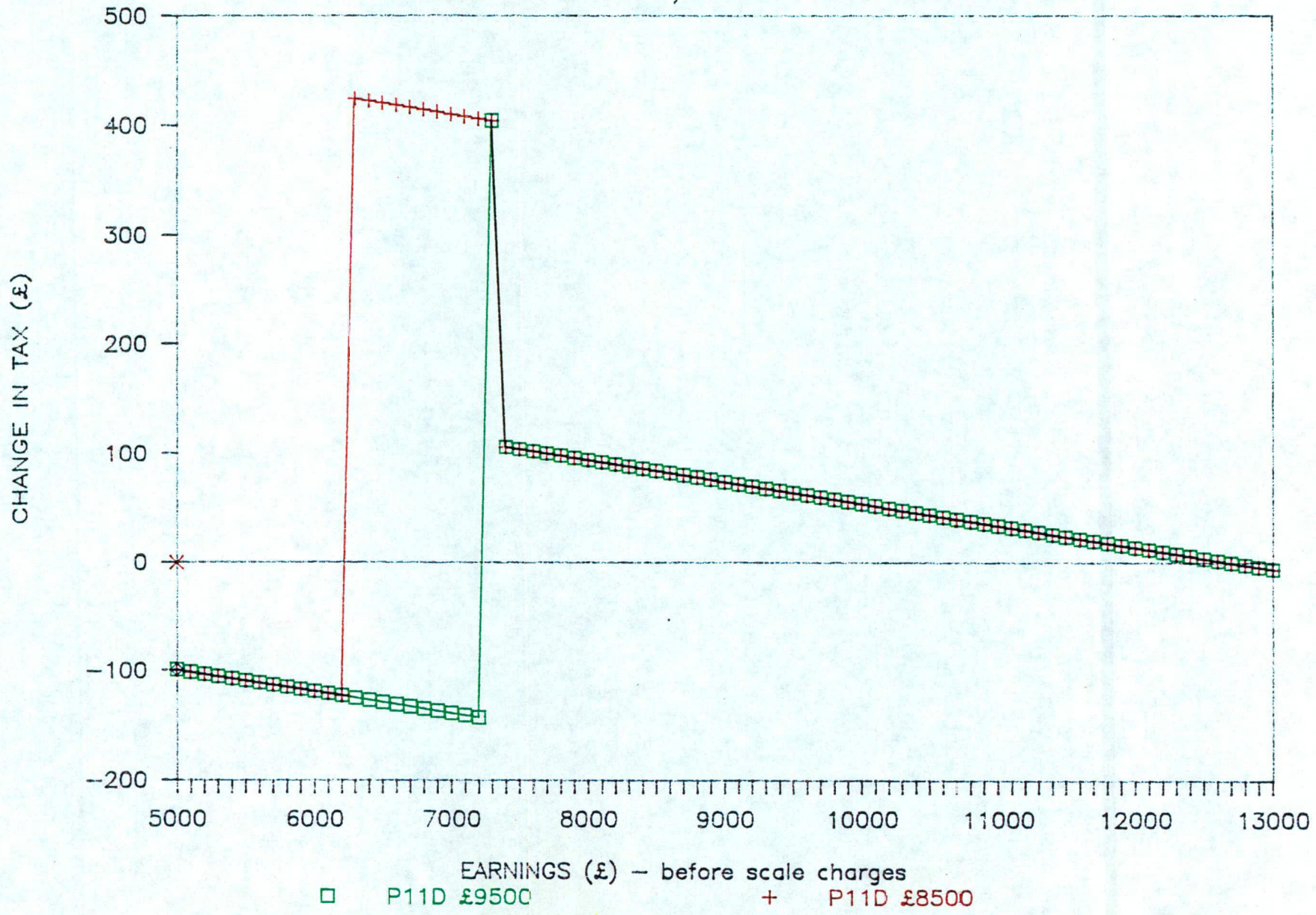

UNDER 1400CC CAR:IT OPTION 3

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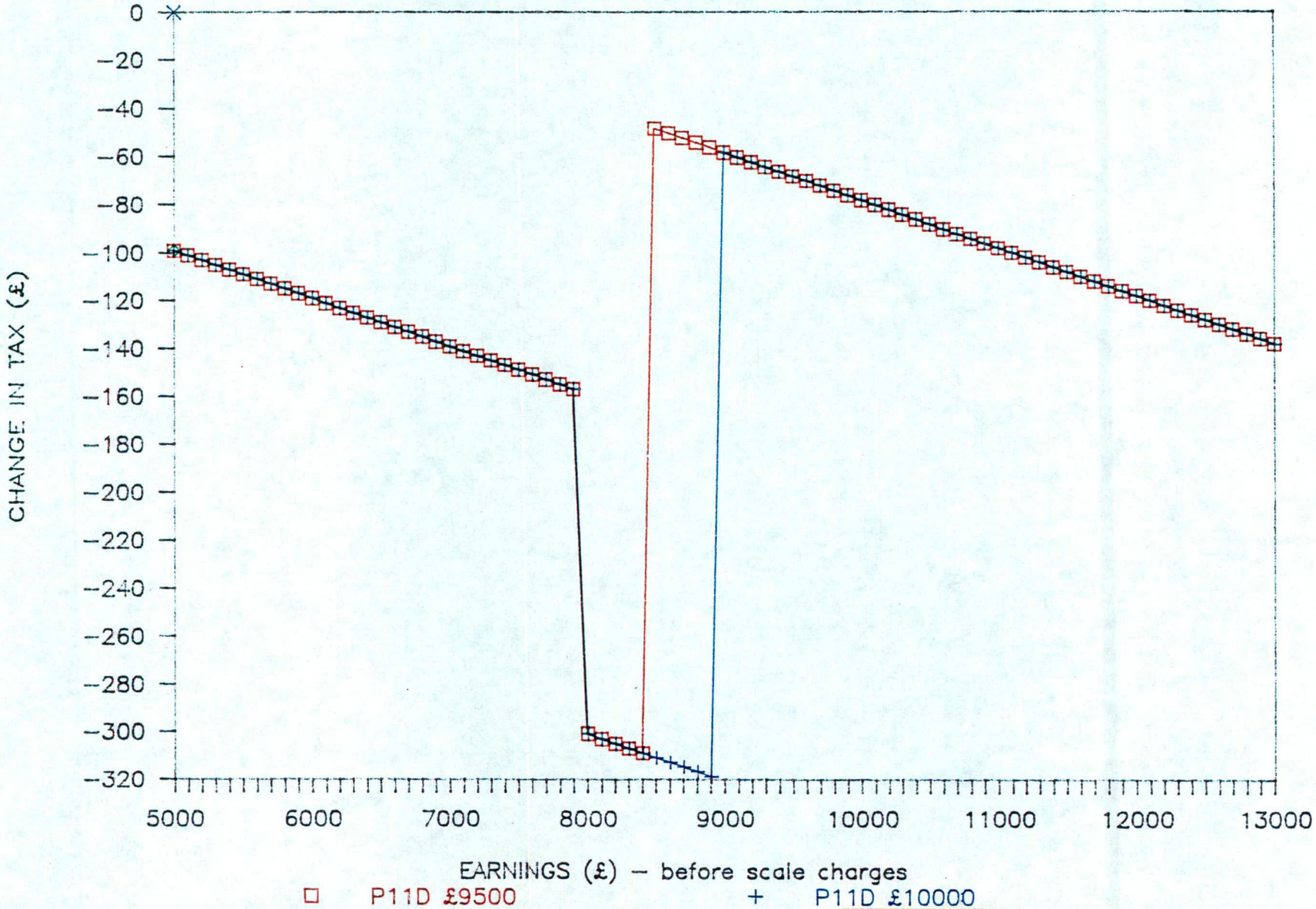

ANNEX B

CHART 1

Annex B

1401–2000CC CAR:IT OPTION 3

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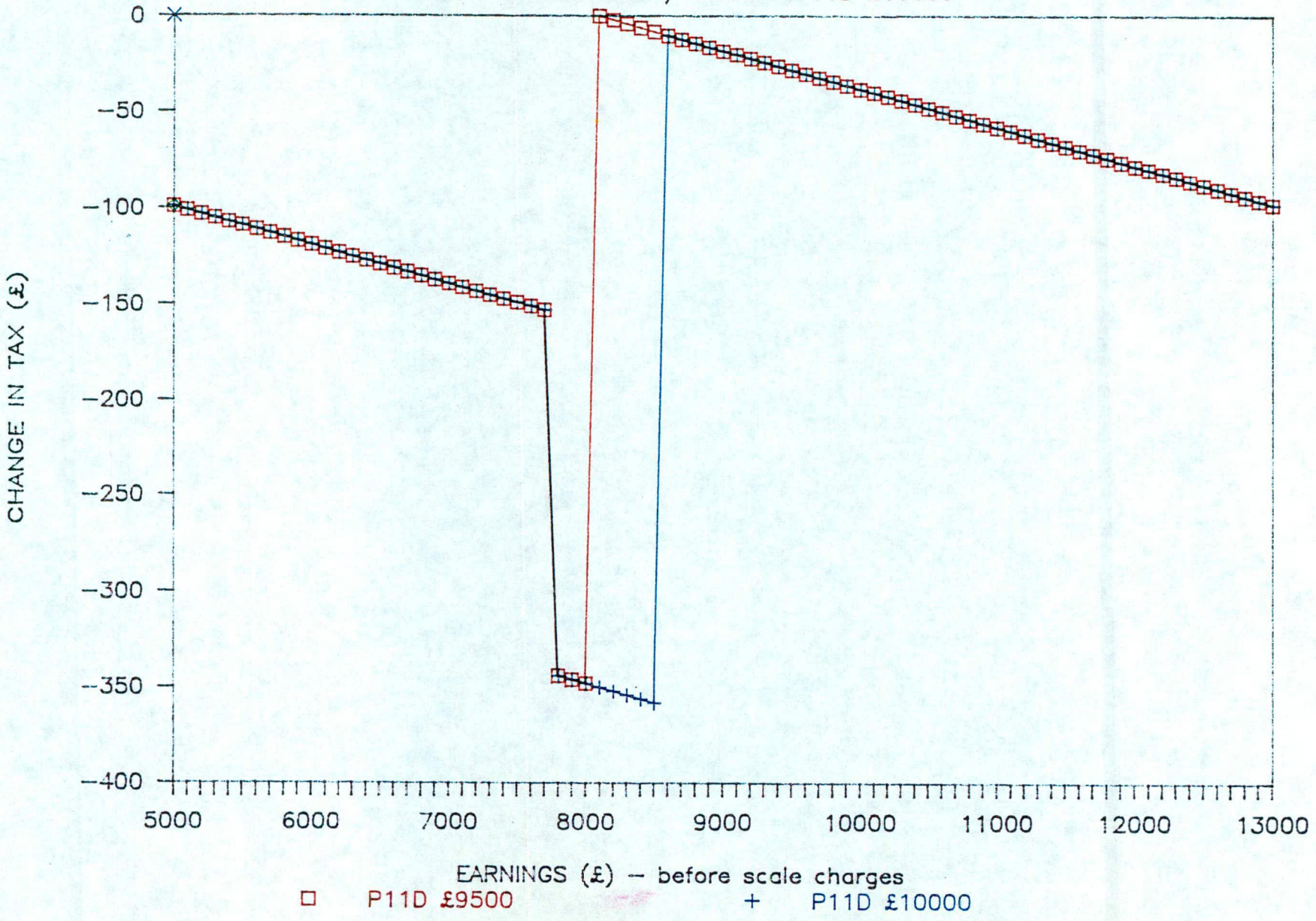

ANNEX B

CHART 3

OVER 2000CC CAR:IT OPTION 3

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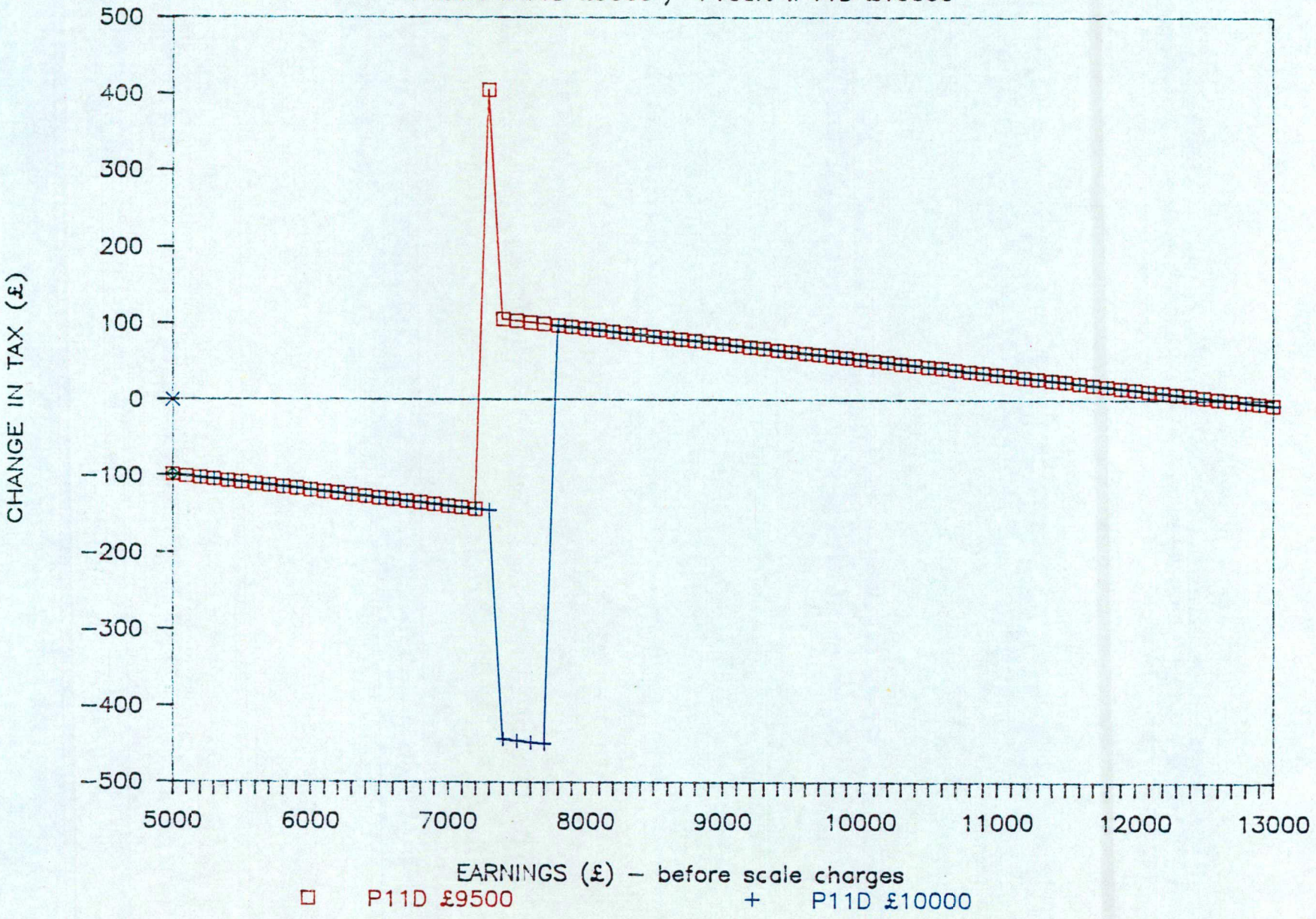

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BUDGET SECRET: TASK FORCE LIST

COPY NO: 1 OF 8

FROM: COLIN MOWL
DATE: 15 February 1988

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Scholar
Mr Sedgwick
Mr Odling-Smee
Mr Culpin

TAX BURDEN

The latest estimates/forecasts of the tax burden, taking into account the latest Budget package are as follows:

	Non-North Sea Taxes and NICs as % of non-oil GDP	Total Taxes and NICs as % of total GDP
1978-79	34.1	33.8
1979-80	35.2	35.1
1980-81	36.1	36.3
1981-82	38.7	39.4
1982-83	38.2	38.9
1983-84	37.8	38.5
1984-85	37.8	39.1
1985-86	37.0	38.5
1986-87	37.4	37.9
1987-88	37.7	37.9
1988-89	37.9	38.1

2. We shall be reporting revised figures on Thursday in Mr Sedgwick's submission on the PSBR prospects in 1987-88 and 1988-89. The 1987-88 estimates may change in light of the latest position on actual tax receipts. The revised 1988-89 forecasts will take account of the revenue departments' post-Budget forecasts which we have not yet received. The forecasts above are Treasury forecasts, based on earlier revenue department pre-Budget forecasts and the costs of the package.

Colin Mowl

COLIN MOWL

FROM: J M G TAYLOR
DATE: 15 February 1988

PS/ECONOMIC SECRETARY

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Cropper
Mr Tyrie
Mr Call

PAYROLL GIVING

The Chancellor has seen the Economic Secretary's minute of 11 February. This was discussed at Prayers: it was agreed that the figure should remain at £240 (£20 a month). He agrees with the Economic Secretary's view that there is quite a lot to be said for a Government funded publicity blitz.

J M G TAYLOR

RJ4.5 BUDGET CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 15 February 1988

MR JOHNS - INLAND REVENUE

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Odling-Smee
Miss Sinclair
Mr Riley
Miss Evans
Mr Hudson
Mr Cropper
Mr Tyrie
Mr Call
Mr Unwin - C&E
Mr Knox - C&E
Mr Jenkins (Parly Counsel)
Mr Battishill - IR
Mr Painter - IR
Mr Isaac - IR
Mr Beighton - IR
Mr O'Connor - IR
PS/IR

JMGT → JOHNS 15/2

MORTGAGE INTEREST RELIEF: CEILING

The Chancellor has seen your minute of 12 February. He confirms that he does not expect to raise the mortgage interest relief ceiling from £30,000.

J M G TAYLOR

mjd 2/125Jn

Presentation

FROM: J M G TAYLOR
DATE: 16 February 1988

CHANCELLOR

HGC

CURRENT TAX TREATMENT OF EMPLOYEE CANTEENS, ETC

The current tax treatment is as follows:

(i) The benefit provided by subsidised dining rooms/canteens available to all staff is exempted from tax by Statute;

(ii) The benefit provided by subsidised dining rooms available to only some staff is exempt from tax by unpublished ESC, provided either that (a) other canteens are provided to the remainder of the staff or (b) luncheon vouchers to the value of not more than 15p a day are given to the staff who eat off the premises;

(iii) The benefit provided by other subsidised canteens/dining rooms is taxed.

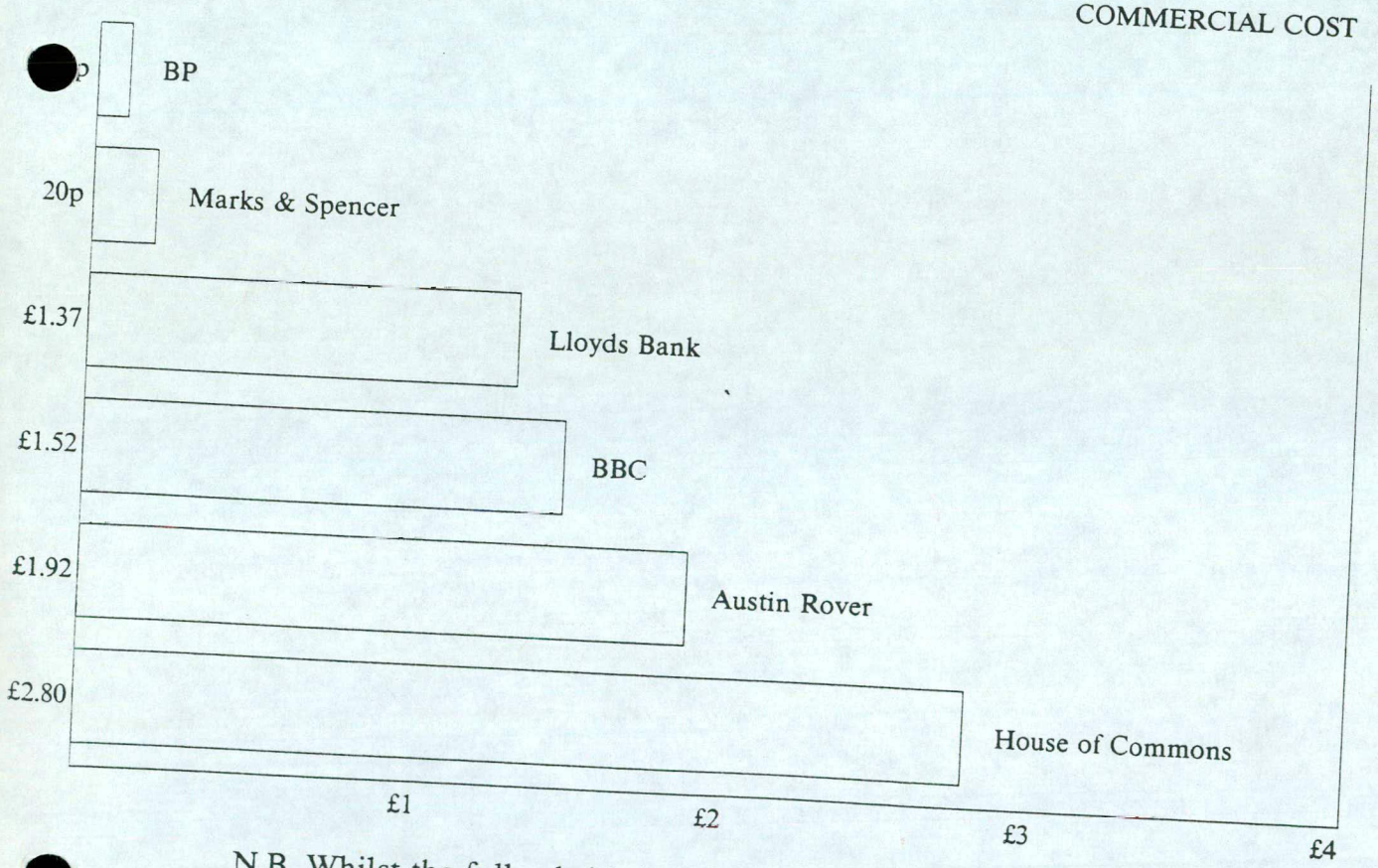
JWGT → CH Ex 16/2

2. There is a separate ESC which means that LVs themselves are tax free up to the value of 15p a day.

J M G TAYLOR

Cost of a Typical Meal in Subsidised Staff Canteens

Soup, Roll & Butter. Fish, Chips & Peas. Apple Pie & Cream. Coffee.
Commercial Cost £4 or More



N.B. Whilst the full subsidy in a staff canteen is tax free only the first 15 pence is in the case of Luncheon Vouchers.

SOURCE: *FOOD AND DRINK PROGRAMME.* BBC T.V. 1986

mjd 2/1350n

BUDGET CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 18 February 1988

PS/FINANCIAL SECRETARY

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

Mr Mace - IR
PS/IR

APA FOR INCAPACITATED WIVES: CONVERSION TO BENEFIT

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

J M G TAYLOR

BUDGET SECRET: TASK FORCE LIST

Inland Revenue

Policy Division
Somerset House

Copy No 1 of 37

FROM: M PRESCOTT
DATE: 18 FEBRUARY 1988

1. MR ISAAC

2. CHANCELLOR

PRESCOTT → CHX 18/2

DIRECTORS DINING ROOMS AND LUNCHEON VOUCHERS

1. At the Overview Meeting on 15 February you said that you were attracted to the idea of action to tax the benefit of subsidised dining rooms exclusively for directors or other groups, possibly even on its own and not linked to withdrawal of the Luncheon Vouchers Concession as envisaged at the previous Overview Meeting. You confirmed that if it was decided to go ahead, the new charge should

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cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Sir G Littler
Mr Anson
Sir A Wilson
Mr Byatt
Mr Monck
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Olding-Smee
Miss Sinclair
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call
Mr Unwin
Mr Knox
Mr Jenkins (OPC)
Mr Hudson
Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Lewis
Mr Easton
Miss Rhodes
Mr Prescott
Mr Northend
Mr R H Allen
Mr I Stewart
PS/IR

- be as simple as possible. This would probably involve apportioning the aggregate amount of the relevant subsidy from the employer towards the cost of the canteen or dining room amongst those entitled to use it on a simple pro rata basis

- apply only in respect of of any subsidy for "direct" costs

- not take effect until 6 April 1989.

- apply only to directors and "higher paid" employees

2. There are, however, various other points which were mentioned in the previous papers (11 February) and on which we would need your formal agreement. This minute summarises those points, and also deals with the two queries about meals taken off the premises and the position of the Members' Dining Room at the House of Commons that were raised at the Overview Meeting.

MEALS OFF THE PREMISES

3. We were asked at the Overview Meeting what was the current law and practice concerning the situation where, instead of providing a canteen that was available for staff generally, an employer paid for all of his staff and directors to eat every day at a local restaurant or cafeteria. The thought was that if this could happen without there being a tax charge, one of the main arguments against withdrawing the LV concession (that small employers were simply not able to provide staff canteens on the premises) lost much of its force.

4. So far as we know, this sort of thing does not happen in practice but if it did the law is quite clear - this would be a taxable benefit. As you know, the statutory exemption applies to any canteen in which meals are provided for the staff generally. "Canteen" is not defined, but is and has always been

taken to mean somewhere that is on the employer's premises and is not open to the public. That would exclude the restaurant etc next door. Similarly, though the original Ministerial statement in 1949 was a little ambiguous (it referred to the provision of meals "elsewhere") - this was the particular point touched on at the Overview Meeting - the dining rooms' Concession is cast explicitly in terms of the provision of lunches on the business premises of the employer and, while we cannot be certain about what may have happened in the immediate post-war period, so far as we know our practice since then has always been to apply the Concession in this way. Again, this would exclude the local restaurant.

MEMBERS' DINING ROOM: HOUSE OF COMMONS

5. You asked whether this would be caught if the new regime was cast in general terms to apply to dining rooms that were exclusive to any particular group of employee or office holder, rather than to those that were exclusive specifically to, say, directors.

I trust any enquiries have been v discreet.

6. We understand from the Fees Office that there are in fact a number of different dining facilities in the House, all run by the House of Commons Refreshment Department. These facilities are

	Access
Westminster Hall	Staff, no guests allowed
Strangers' Cafeteria	Members and Staff plus guests
Members' Cafeteria	Members only
Strangers' Dining Room	Members and Officers*
Harcourt Grill	Members and Officers* and guests
Members' Tea Room	Members and Officers*
Terrace	Members and Officers*

Members' Dining Room	Members plus one table for Officers*
Private Dining Rooms	Arranged ad-hoc

* Officers are senior staff - roughly Principal and above.

7. The Refreshment Department runs a trading account which is in surplus, but this apparently disguises a subsidy provided by the Fees Office who pay Refreshment Department staff. The surplus for the year ended March 1987 was £374,000 (of which £154,000 came from the shop selling House of Commons mints etc). The wage bill is about £2 million a year - so the subsidy (for staff costs) seems to be about £1.8 million a year. (This may be biased towards the waitress service facilities in the Members' and Strangers' Dining Rooms, unless it is the case that this is offset by relatively higher prices there - the annual accounts produced by the Refreshment Department do not break the subsidy down between the different facilities and we understand that there has been no such breakdown since 1968-69).

8. Staff of the House are employed by the House of Commons Commission, and their wages etc come from a separate vote to that for MPs. But both MPs and staff are paid through the Fees Office.

9. The present statutory exemption applies to the provision by the employee's employer of meals in any canteen in which meals are provided for the staff generally. We think that if we simply followed this present formula (ie so that the new charge was simply the obverse of the existing statutory exemption), there may not be a problem for MPs - though we cannot be certain about this.

10. The reasoning is as follows. Although MPs are "office holders" and do not therefore have an employer as such, it can plausibly be argued that if they did have an employer it would appear not to be the same person as the person employing the other staff who work at the House. Thus, certain senior officers of the House appear to be office holders under the

Crown; MPs' secretaries are employed by MPs; and the other staff (the majority) are employed by the House of Commons Commission - none of whom, we think, could be said to be the employer of MPs themselves.

11. It is arguable, therefore, that a facility like the Members' Cafeteria could be regarded as being outwith a charge that applied to "exclusive" dining rooms, because the Cafeteria would not be exclusive in the sense here intended - ie it would extend to the whole "population" of MPs, rather than to some and not others. By contrast, a dining room that was limited to, say, directors would be "exclusive" in the sense that like other staff, directors would be employees and/or office holders of the same employer, and the facility in question would therefore then be one that was available for some of that employer's employees etc but not others.

12. We readily accept, however, that all this is a little tortuous (and not entirely free from challenge): it depends on an obscure point of constitutional law which (so far as we have been able to discover in the time available) has not previously been considered by the Courts. It would therefore be for consideration whether there should be explicit provision in the new legislation to exclude MPs.

13. Moreover, whatever the position technically, a distinction of this kind might not be easy to get over presentationally. Many people might still perceive something like the Members' Cafeteria as being really no different from a dining room exclusive to directors, and there could well therefore be criticism if the latter started to be taxed while the former continued to be exempt.

14. An implicit question here, of course, is whether as a matter of policy Ministers would want the proposed new charge to apply to MPs dining facilities, notwithstanding the possible technical "let-out" mentioned above. On the face of it, there would seem to be good reasons for treating MPs no differently

from any other director or employee. They are, after all, liable in the same way as everyone else to tax on any perks they receive by reason of "the office or employment" except those specifically exempted. Moreover, the reasons which have been suggested might be advanced in justification of taxing exclusive dining rooms for directors etc would seem to apply with equal force to facilities like the Members' Cafeteria.

15. On the hand, this would probably make the provisions more controversial than otherwise. Some Members presumably might argue that the provision should not apply to MPs. However, rather than appear to be claiming special treatment, most Members might instead argue that the provisions themselves were wrong and should not apply to anyone.

16. One further point should be noted concerning the facilities at the House. Even if the technical let-out for MPs mentioned above does hold water, there would still be a problem for those other people working at the House who were entitled to eat in facilities like the Strangers' Dining Room or the Members' Tea Room. This is because only certain senior officers are entitled to use those facilities, and so those officers would be caught by the new regime if it applied to exclusive dining rooms generally. The result might easily be a situation where an MP and a senior officer of the House sat down together to eat an identical meal in the same restaurant - with the one being taxed on the benefit and the other not. Ministers would need to consider whether this kind of anomaly could be defended.

WHICH DINING ROOM?

17. As noted, the provisional decision at the Overview Meeting was that the charge should apply to any dining room that was not available to staff generally. This is simply the obverse of the existing statutory exemption, and has the great merit of being simple and avoiding potentially quite difficult definitional and compliance problems in attempting to target the charge more

specifically on dining rooms for, say, directors and senior executives. Moreover, in many cases this may amount much to the same thing - ie in practice where there is a dining room that is not for the staff generally this will often tend to be one that is for the directors and senior executives.

18. Clearly, however, such an approach would involve a wider coverage than a charge targeted more specifically on directors and senior executives. For example

(a) there may well be other groups of office holder who, like MPs, have dining room facilities that are not available to other staff working at the same place. The Courts may be one example, where Judges and senior Court officials may eat in separate dining rooms from other Court staff generally. Senior academics who eat in separate dining rooms (as distinct from separate tables in the same dining room) may be another example.

(b) the Armed Forces. Broadly, as we understand it, the position here is that all servicemen of whatever rank pay a standard weekly food charge (£16.45 and £8.40 for single and married personnel respectively) which is in respect of all basic meals. There seems little doubt that this does not fully cover the cost of the meals provided, though we have been unable in the time available to ascertain whether it does at least cover the direct cost of the food itself and of the staff in providing it. In addition, officers and NCOs pay messing charges that cover in full the additional cost of any additional facilities, food, etc enjoyed in their particular mess. To that extent, therefore, there is no subsidy. However, to the extent that there is a subsidy towards the cost of basic meals, and bearing in mind that in the case of the Army for example there are three tiers of canteen, each for the exclusive use of the category concerned, a charge that applied to exclusive canteens generally would seem to

catch virtually every canteen in the Armed Forces (at least in respect of basic meals). But this does depend on the exact level of the subsidy and we should obviously need to check the position more carefully than has been possible in the time available

(c) more generally, if there are companies that have different canteens for staff in different grades - eg shopfloor staff, administrative staff, senior management, etc - these too would be caught under a generalised approach if the canteen is exclusive to the particular staff group in question.

19. In view of these difficulties, we have been considering the alternatives should Ministers decide that they would on balance prefer to have a more narrowly targeted provision.

20. In theory, one option would be to confine the charge to those dining rooms that were exclusively for directors only, and no one else. This would obviously remove any problem with particular groups like MPs, Judges or the Armed Forces, and would not give rise to any definitional problems. But it has two major weaknesses. First, we believe that there are in practice likely to be relatively few such dining rooms because in most cases the directors' dining room will be open to senior staff as well. Second, avoidance would be relatively easy, by the simple expedient of allowing one or two other members of staff use of the facility, and perhaps then only occasionally.

21. A second possibility might be to target the charge on dining rooms that were exclusively for directors and senior employees, with the latter perhaps defined in terms of employees with annual earnings of more than some specified amount - say £20,000. This approach would not necessarily succeed in removing the problem of special groups like Judges, MPs and the Armed Forces - that would depend on where exactly the salary level was set, and even then there could well be some random and anomalous results both between one group and another, and within

groups. But it would at least remove from the ambit of the charge canteens or dining rooms that were exclusively for employees below the specified salary level - eg shopfloor canteens, canteens for "other ranks" in the Armed Forces, etc.

22. A third approach might be to target the charge on dining rooms that were wholly or mainly for the benefit of directors.* ("Wholly or mainly" is a term used elsewhere in the Taxes Acts, and has been interpreted by the Courts to mean, broadly, more than 50%.) Thus, this would go rather wider than the option at paragraph 20 above (those dining rooms that were also available for senior staff but where the directors were still in the majority would be caught as well), while not going as far as the option at paragraph 21 above (so avoiding the problem with the special groups like MPs, Judges and the Armed Forces). On the other hand, this approach too would have its drawbacks. In particular, it would not catch a dining room that was predominantly for senior executives (ie where no directors were admitted or where they were in the minority, even though the level of provision - and subsidy - in that dining room might be very high indeed). And, of course, it would only apply to companies and so would not catch, for example, the senior staff dining rooms in the large legal and accountancy practices. (Though there would only be a chargeable benefit for those partners that are taxed under Schedule E anyway).

RELEVANT SUBSIDY: DIRECT COSTS

23. You have decided that the measure of the benefit for this purpose should only include any subsidy in respect of the direct running costs of the canteen or dining room in question. In practice, the main direct costs will be food and drink served in the canteen and the wages and salaries of those employed in it.

24. Overheads such as an annual charge in respect of accommodation (rent, rates, maintenance etc) would be excluded. But there are then various other costs as follows

* There are also, of course, other quirks. The £80,000 manager is not caught; but the £10,000 director of a local garage is caught. Companies like ICI (largely organised on a "big company/local brands" basis) are relatively little affected; companies like BTC (organised on a "company group" basis and are 700 subsidiaries, each with its own "directors") are much more affected.

(a) kitchen equipment (cookers, dishwashers, etc), fixtures and fittings in the dining rooms, cutlery and china, etc. A true "profit and loss" statement for this kind of facility would normally need to include an annual charge in respect of depreciation for these items

(b) the costs of heating, lighting and fuel incurred directly in running of the canteen. Unless separately metered, this would normally have to be determined on the basis of apportionment

(c) other costs directly relating to the facility; eg laundry, cleaning, (possibly) insurance, etc.

25. There is no clear dividing line between "direct" and "indirect" costs and it would, therefore, be largely a matter of judgment on which side of the line to put the costs mentioned above. We have consulted Sir A Wilson who agrees with our own provisional view which is that in the interest of simplicity - and minimising burdens on employers - they should all be treated as "indirect" and so excluded from the measure of the benefit for present purposes.

26. A further possibility, however, would be to uplift any employer's subsidy towards the cost of food and wages by a modest amount - eg 10-20% - in recognition of the fact that all of the above costs, and the other indirect costs, were being excluded from the reckoning.

27. One other point should be noted. Under the present statutory rules for taxing benefits generally, the measure of the benefit (unless special rules apply - eg cars) is the cost to the employer of providing it, and for this purpose cost includes <u>all</u> costs - indirect as well as direct. To the extent therefore that we are already taxing directors' dining rooms (ie because the terms of the dining rooms Concession are not satisfied), we should in theory - and in a few cases may well in

practice - already be including something for indirect as well as for direct costs. In these cases, therefore, the new regime would (at least in principle) entail a lower charge than at present.

BASIS OF APPORTIONMENT

28. The aim would be to keep things as simple as possible and you decided, therefore, that the charge should in effect be an annual one relating to availability of the canteen, not actual use of it by the employee concerned. The aggregate relevant subsidy would simply be divided by the number of employees etc entitled to use it, and each employee would then be deemed to have enjoyed his pro rata share of that subsidy - whether or not he has actually done so. There would also need to be a rule to apportion out any part of the subsidy relating to entertainment of guests in the canteen or dining room. This would reduce the amount of the charge on the employees; but the cost of the hospitality would then normally be disallowed to the employer. You also agreed that there should be a let out for the employee who does not use the facility at all during the year in question.

29. It has to be recognised, however, that while this approach could be justified on the grounds that it was simple and relatively easy for employers to operate, there would probably also be strong criticism on the grounds that

(a) the charge would bear no relation to actual benefit enjoyed by any one individual; an employee who used the canteen only once in the year (and perhaps then only to get a quick snack) would be charged on his full pro rata share of the benefit - on the figures in the Annex, perhaps on an amount of £1,000 a year *

(b) just as the car scales charges are reduced proportionately if the car is not actually available

* thus, an quick cheese sandwich could cost an incautious director (50p) £100.

to the employee for part of the year, so too might there be pressure to allow a proportionate reduction for times when the employer was simply not in a position to avail himself of the facility even if he wanted to - ie absence from the office on business or sick leave. We think it would be necessary to build in some allowance for this - eg what if the employee is only actually employed by the company for, say a month during the year in question - but that would start to defeat the object of keeping things as simple as possible.

30. There are, of course, other ways in which the benefit might be apportioned to the individuals concerned. In theory, one more finely tuned approach would be to multiply the subsidy per meal by the number of meals each individual employee has taken and so apportion to him the actual subsidy he has enjoyed. In practice, however, this would complicate things intolerably; the employer would need to keep a record not only of the number of times the employee ate in the restaurant, but also of what he ate and - most difficult of all - what was the subsidy element in that particular item. (In practice, it is likely to be very difficult indeed for employers to say what the direct cost subsidy is per particular item of food or drink). A rather different approach would be to allow employers to apportion the actual subsidy between eligible employees on a "just and reasonable" basis, without defining the precise method to be used. (There are precedents for this kind of approach elsewhere in the Taxes Acts). But this would create other kinds of difficulty - eg what if the employer and employees between them cannot agree on a method, etc - and this may not, therefore, be practicable either.

31. You decided, therefore, that we would initially write in a simple pro rata rule and leave it at that. But if alternative methods for apportioning the benefit were proposed during the course of the Bill, these could of course be considered by the Government.

LUNCHEON VOUCHER CONCESSION

32. The main charge for dining rooms would presumably be justified and presented mainly on the grounds that in practice the level of subsidy in exclusive dining rooms, which will usually mean "top" dining rooms, is often likely to be much higher than anything provided for other staff even where they are provided with meals in a separate canteen. (With a charge applying to exclusive dining rooms generally, however, we would also be catching those cases - admittedly probably not a majority in practice - where there is an exclusive facility for, say, the directors or middle management but where as with eg the Armed Forces there is also a broadly similar level of provision - albeit in a separate dining room - for the other staff as well. There is no serious doubt about the general proposition, but the position will not be all black and white in practice). To that extent, the new charge could of course be justified on its own.

33. Clearly, however, it would be (at least) consistent to link the new charge with withdrawal of the LV Concession. Indeed, the Financial Secretary' original suggestion (his note to you of 5 February) was based not so much on the need to tackle directors dining rooms, but on using this as a convenient quid pro quo for the real objective which was to get rid of the LV Concession. Withdrawal of that Concession could, of course, be justified anyway on the grounds that it has simply become anachronistic. But the thought was that it might help presentationally if the Government was also seen to be taking tough action on those eating particularly well (and tax-free) - ie in exclusive dining rooms.

34. Withdrawal of the LV Concession itself would be straightforward - all that would be required was an announcement to the effect that it was being withdrawn, presumably with effect from 6 April 1989 when the new charge would also be taking effect.

YIELD

35. On the assumption that the charge would apply only to dining rooms that were exclusively for directors and "senior" staff, we tentatively estimate that the yield might be about £40m in a full year. This ignores any behavioural effects. (Annex A explains how we arrived at this estimate). Of course, if the charge applied to any canteen or dining room that was not available to the staff generally, the yield would be considerably higher. Withdrawal of the LV Concession would yield a further £20m.

OPERATIONAL ASPECTS

36. Though the charge would not apply until 1989/90, if we are to collect the tax in year, we would need to obtain information before then about who was getting this benefit so that codings could be adjusted (albeit provisionally) for 1989/90 accordingly. This would require a special exercise. We should need to approach all 1.2 million employers in, say, September this year asking them for information about "exclusive" canteens, the names of employees and directors who are entitled to use the facility and the probable aggregate relevant subsidy that the employer will be providing for that canteen during the following year. This would then give us the information needed to make a (provisional) coding adjustment for the employee in question for 1989/90. This will, of course, involve s significant postal cost as well as additional resource costs, which we can take into account in costing the final Budget package.

37. The practical alternative would be to wait until the end of 1989/90, pick up the existence of the benefit from the P11D and collect the 1989/90 charge retrospectively. At the same time a coding adjustment would be made for 1990/91. Operationally this is messier and might result in a possibly considerable part of

the 1989/90 charge never being collected because of the £75 tolerance which we apply before an assessment is made.

38. It should also be noted that the operational costs would be greater the wider the coverage of the charge. If it applied to all exclusive dining rooms we could be catching large numbers of employees who were above the P11D threshhold, who were not directors or senior staff, but who nevertheless were eating in an exclusive canteen or dining room. Indeed, depending on how many of this kind of canteens there are in practice it is possible that we could have some P11Ds being returned where the only benefit arising was that from eating in an exclusive canteen.

POINTS FOR DECISION

39. The main outstanding points for decision are as follows

(a) Is it confirmed that the charge should apply to exclusive canteens and dining rooms generally, rather than only to those that are exclusively for, say, directors and senior executives? Or, do Ministers wish to pursue any of the alternative approaches mentioned at paragraphs 20 to 22 above?

YES

(b)? Provided that we followed the form of the present statutory exemption for canteens, there might technically be a let out for eg the Members' Cafeteria at the House of Commons. Given that this may not be watertight, however, should there be an explicit provision to exclude MPs?

having a statutory provision? Other authorised Cases?

(c) Alternatively, would Ministers as a matter of policy want such facilities to be included in the new charge? [Consideration of (b) and (c) are linked to what is decided on (a)].

See above

(d) Is it confirmed that the charge should be based on a simple formula, dividing the annual relevant subsidy for the facility in question by the number of employees entitled to use it, with an exception only for those employees who do not use the facility at all during the year in question?

yes

yes (dd) Is it confirmed that is to exclude from the subsidy the amount attributable to food and drink consumed by outside guests? (the full cost of hospitality will be disallowed to the employer)

(e) Is it agreed that the relevant subsidy for this purpose should be the contribution from the employer to direct labour and food and drink costs only?

(f) If so, should there be a further (modest) uplift in part recognition that various other costs would have been excluded from the reckoning? If so, what should the uplift be?

not necessarily

!

(g) Do Ministers still wish to go ahead with the new charge?

(h) If so, on its own or together with withdrawal of the LV Concession?

with LV withdrawal

M PRESCOTT

ANNEX A

ESTIMATED YIELD ON PROPOSED NEW CHARGE FOR EXCLUSIVE DINING ROOMS

Available information

1. A survey for the Top Salary Review Board (TSRB) in 1984 showed that 61% of Board members and 68% of senior executives in companies surveyed got subsidised meals of one kind or another. The average subsidy (which we believe excluded anything in respect of indirect costs) for Board members was £454 a year, and for senior executives £374. A survey has also been carried out in 1987 but the results will not be published until April.

2. A further study by Hay-MSL showed that 21% of employers who provided subsidised meals provided canteens which were restricted to senior staff. A further 10% provided facilities which were available to senior staff for entertaining other people. On average, employees had to be earning over £25,000 a year in order to have access to one of these canteens.

3. Finally, the annual surveys of remuneration packages of senior staff which are published by Inbucon show that the percentage of senior staff receiving subsidised lunches has been declining. The relevant figures are:

1982	1983	1984	1985	1986	1987
71%	67%	63%	62%	56%	53%

Projected yield

4. There are about 400,000 employees earning over £25,000. There are also about 800,000 directors, but many of these work for small companies that are unlikely to have any kind of dining room facilities. We are assuming for present purposes that all 400,000 senior employees, but only 200,000 (25%) of directors, have access to company canteens or dining rooms, making a total of 600,000.

5. We are further assuming that about 55% of these get subsidised meals (Inbucon and TSRB data) and that, of those, about one-third get meals in an exclusive dining room (Hay-MSL) making a total of about 100,000.

6. The average cost to the employer in 1984 was, according to TSRB data, around £400 which would be equivalent to around £500 in current prices. These figures relate to all dining rooms, not just those of the exclusive variety and it seems reasonable to assume that the level of subsidy in "top" dining rooms is considerably higher than for canteens generally. To take account of this, we have doubled the cost to £1,000: this would still represent a subsidy of only £4 a working day for a 250 working day year which may still be on the low side, but not unrealistic.

7. An average subsidy of £1,000 per year for 100,000 people gives a total subsidy of about £100m. The yield on this, assuming a top rate of 40%, would be £40m.

42/2.BTW.1234/72

BUDGET: CONFIDENTIAL

FROM: J J HEYWOOD
DATE: 17 February 1988

PS/CHANCELLOR

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

PS/FST
PS/CH
M+L

Ch/ Agree with FST?
JF
17/2

I agree.

APA FOR INCAPACITATED WIVES: CONVERSION TO BENEFIT

behind/ The Financial Secretary has read Mr McIntyre's minute of 16 February.

2. Subject to any comments the Chief Secretary may have, the Financial Secretary recommends that the idea of converting this tax relief into a benefit should not be pursued any further. He therefore believes that 10(b) in Mr McIntyre's minute is the only option.

9.2

JEREMY HEYWOOD
Private Secretary

Copy No. 1 of 37.

BUDGET SECRET : TASK FORCE LIST

Inland Revenue

Policy Division
Somerset House

From: M A KEITH
Date: 17 February 1988

1. Mr McGIVERN
2. CHANCELLOR

CAPITAL ALLOWANCES : EXPENSIVE CARS

1. At the overview meeting last Monday you asked us to look at the implications of raising the £8,000 capital allowance ceiling for expensive cars to £10,000. The attached annex shows the cost of an increase to that level and the estimated number of cars which would remain subject to the special restrictions, with comparative figures for increases to £12,000, £14,000, £15,000 and £16,000.

---

c: 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 Monck
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Odling-Smee
Miss Sinclair
Mr Riley
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call
Mr Unwin
Mr Knox
Mr Hudson
Mr Jenkins (Parliamentary Counsel)
Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr McGivern
Mr Johns
Mr Lewis
Miss Rhodes
Mr Keith
Mr I Stewart
PS/IR

Ch
This doesn't seem v persuasive to me. An increase to £10000 still takes out over 1/2 number of cars caught.
AA

2. An increase to £10,000 only would halve the cost of doubling the limit to £16,000 but from a deregulation viewpoint it would have much less impact. On the basis that about 400,000 business cars purchased in 1988/89 would be affected if the ceiling were left at £8,000, an increase to £10,000 would remove the need to keep separate records for around 55 per cent of them. This contrasts with more than 90 per cent if you decide to raise the limit to £16,000. Even in the first year, that means separate records for another 150,000 cars.

3. The administrative burden of keeping separate records for an increasing number of cars is the main thrust of the case presented by representative bodies when calling for abolition of the restrictions or a substantial uplift of the ceiling in their annual budget representations. Last year for instance the CBI in calling for an uplift to £19,250 - the threshold for expensive cars under the benefit rules - said "Inflation since 1979 when the limit was fixed has meant that it is exceeded with increasing frequency, necessitating additional compliance costs which far outweigh the benefits to the Exchequer". In this year's round, of ten bodies which have raised the issue so far the Finance Houses Association highlight the compliance costs as a particular cause of concern over a wide range of businesses and not just to the Financial Sector.

4. Although it would result in a sizeable reduction of compliance costs, a £10,000 limit is unlikely to be seen by Industry and the Representative Bodies generally as a satisfactory solution. It would also do nothing to bring the capital allowance restrictions back to the luxury class of cars for which they were intended. At £10,000 the restriction would still apply to 8 of the 24 models in the Ford Sierra range.

5. In assessing the proper level of this limit, you need to take a long view. Everyone will know that it is unlikely that the limit will be raised again this Parliament. The

last time the limit was raised it was by 60 per cent - £3,000. Anything less now runs the risk of being seen as derisory, particularly in the context of a doubling of the benefit scales.

6. This suggests - if you are unable to afford the doubling to £16,000 to match the car scales - either £12,000 or, preferably, £14,000. Setting the limit at £14,000 would enable you still to claim that "about" 90 per cent of cars had been taken out of the special rules.

Points for decision

7.

a. Is the limit for capital allowances on expensive cars to be raised and, if so, to what figure?

b. Is the change to be made in the Finance Bill rather than by Treasury Order?

no advice on this.
But presumably in Finance Bill? ✓

(if @ all)

M A KEITH

ANNEX

A906

CAPITAL ALLOWANCES : EXPENSIVE CARS

Costs

At current prices the cost of raising the capital allowance ceiling to various levels would be:

£m

Ceiling	1988/89	1989/90	1990/91	1991/92	1992/93
£10,000 -	Negligible	30	50	60	50
£12,000 -	Negligible	50	90	100	80
£14,000 -	Negligible	50	100	120	90
£15,000 -	Negligible	50	110	120	90
£16,000 -	Negligible	50	110	130	100

Cars affected

The estimated number of cars costing more than the revised ceiling would be:

Ceiling	No.of cars	Percentage of total business cars above current £8,000 limit
£10,000	180,000	45
£12,000	80,000	20
£14,000	50,000	just over 10
£15,000	40,000	10
£16,000	30,000	less than 10

040/3651

BUDGET SECRET: TASK FORCE LIST ONLY

Copy No 1 Of 9

FROM: MARK CALL

DATE: 19 FEBRUARY 1988

CHANCELLOR

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

TAXING PERKS CONSISTENTLY

CALL 9/2

In the proposal for a tax on car parking we have another attempt to tax a businessman's perk and yet failing to do so comprehensively and equitably. As with the canteen, the tax on car parking introduces the artificial barrier: on premises/off premises. This would carry with it all the same problems of definition and stir up cries of inconsistency. In a budget that is supposedly reducing distortion and complication in the tax system, adding another probably contentious boundary condition would not be helpful. In addition the foregone revenue is hardly substantial (paragraph 10 of Mr Lewis' paper intriguingly introduces the notion of 'theoretically quite large revenue, which are in practice quite small or negligible').

I thus believe we should not proceed with the car parking tax (or as the Revenue put it grant a general exemption). I think we can live with doing something on directors' dining rooms but not car parking, since a director's lunch is a benefit of a different quality to that available to other employees. A car park place is a car park place. In fact, one could argue that the greater utility of the on-site parking place should lead us to propose a higher tax on that than on off-site parking.

RCJ.

MARK CALL

BUDGET SECRET: TASK FORCE LIST

1/37

Inland Revenue

Policy Division
Somerset House

Ch/ Points for decision
Summarised in para 17.
JT 18/2

FROM: P LEWIS
DATE: 18 FEBRUARY 1988

Chancellor

FRINGE BENEFITS: CAR PARKING

1. This note seeks decisions (or confirmation of decisions) on

- the extent to which car parking should in future to be taxed
- the starting date
- how past years are to be handled
- the way in which the changes are to be introduced (legislation or ESC)

LAUB CHE 18/2

---

cc 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 Monck
Mr Scholar
Mr Culpin
Mr Sedgwick
Mr Olding-Smee
Miss Sinclair
Mr Riley
Mr Hudson
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call
Mr Unwin
Mr Knox
Mr Jenkins (Parliamentary Counsel)
Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Lewis
Miss Rhodes
Mr Prescott
Mr Northend
Mr R H Allen
Mr I Stewart
PS/IR

Ch
? to Overview (with Doctors' Dining Room)
AA

Coverage

2. The provision of a car parking space at or near the place of work is very common. We estimate that about 4 million director and higher paid employees use employer provided parking spaces. There is at present a charge to tax, but it is not consistently applied. The present rules are difficult to operate. They depend on identifying the annual value of a parking space where it is owned by the employer; and there are various practical difficulties, for example, employees are often not given the exclusive use of a space.

3. In previous discussions Ministers have concluded that the choice lies between either a general exemption or only exempting parking on the employer's own premises, possibly combined with some "de minimis" limit for the charge on "off site" parking.

4. On a limited exemption the main arguments are

- it would tax some of the most obvious, and largest benefits

- it would only tax payments made specifically for parking, thus avoiding the valuation problem for owned premises

On the other hand

- it would leave many cases still liable, thus increasing employers' and Revenue compliance costs

- the distinction between "on" and "off" premises looks likely to create many and anomalies may not be easy to define *

---

* For example, why should the expensive private parking space at the bottom of the City office block be exempt because the firm owns/leases the premises, but a cheaper less convenient space in a commercial car park nearby be taxed? If a firm rents some overflow spaces in the car park of the firm next door, why should its employees using them be chargeable when there is no liability for employees of either firm using their own firm's premises? Why should a separate patch of ground leased for parking give rise to liability when, if it formed part of the business premises, there would be no charge?

5. On a full exemption the main points are that it would

- exempt some large and obvious benefits, which it would be difficult to justify

- in principle forgoes a significant revenue yield.

But it

- would not increase employers' compliance and Revenue staff requirements

- would avoid a dividing line between "on" and "off" premises parking which would not be easy to defend in principle or operate in practice.

6. If you decide to retain a charge on off-site parking, it could be focused on larger cases by some "de minimis" limit. One possibility would be £200, like cheap loans. This would reduce the number of cases and thus the additional work for employers and the Revenue; and you might feel it was more consistent with your approach to dining rooms. On the other hand, there is no obvious justification for a statutory de minimis rule just for this benefit; at present the cheap loans de minimis limit is the only one.

Starting date/earlier years

7. Whichever is the choice, we do not see any particular compliance or operational considerations which would point to a starting date other than 6 April 1988.

8. Whichever exemption you go for, we would need to say how we would handle liabilities for previous years. We suggest this should be along the lines that any unsettled liabilities for past years would be settled in accordance with the new rules, but

where the liability was settled at Budget Day we would not repay tax which had correctly been paid in accordance with the law applying for those years. This is the approach you authorised for the new relief for third party entertainment announced in September.

Implementation

9. If there is to be a charge on off-site parking a special in-year exercise in 1988/89 to identify employees with this type of benefit might be worthwhile particularly if it could be combined with similar special action on directors' dining rooms. Alternatively, cases could be identified as the 1988/89 P11Ds come in after April 1989. We would need to consider further which would be the better approach.

Yield

10. We cannot estimate the cost of exempting car parking generally, or on-site parking only. Although theoretically quite large, in practice it would probably be small or negligible. In the FSBR the actual tax loss would be shown.

Legislation or ESC?

11. This was a point noted for further discussion at the Overview on 8 February.

12. Extra statutory concessions are essentially an administrative device under which, by virtue of their general "care and management" of the taxes they administer, the Board indicate that they will not collect tax in respect of certain specific, minor, types of liability. ESCs have to be published, and reported and justified to NAO. (The annex looks briefly at the difference between ESCs, Statements of Practice, and administrative ("de minimis") arrangements.)

13. Existing ESCs are inevitably something of a mixed bag, having grown up over a long period in response to specific, but widely varying, problems. Essentially, however, they are all at the margins of the tax code. Examples are minor extensions of reliefs where the legislation did not quite fully cover its intended target (or where circumstances have subsequently changed creating another small class which clearly would have benefitted had it existed when the legislation was enacted); relief of unintended hardship; transient problems or very small classes of cases where legislation, if it needed to be complex, would be a disproportionate solution. They thus have, in one way or another, an administrative flavour to them and, with very few exceptions - and those generally where perceptions have changed with the passage of time - are uncontroversial.

14. It is difficult to see how an exemption for car parking - whether a general exemption or one only applying to parking on "own premises" - could be fitted into the accepted concept of an ESC

- the number of taxpayers involved, and the amount of revenue at stake are (in theory) both large

- there is no question of hardship

- there is no question of the benefit having being caught inadvertently - it is squarely within the charge - or being different in kind from the sort of benefits at which the legislation is aimed

- remedial legislation would not be disproportionately long or difficult

- although applying the law would in some cases be troublesome and time consuming in others it would be relatively straightforward (and some tax is being collected). We could not say that the present rule was either impossible to administer or that the yield would be de minimis in relation to the administrative

cost. Thus there is no administrative basis on which the Board could decide that these benefits should not be taxed

15. If you confirm that you wish to introduce a limited exemption an ESC would seem particularly inappropriate as the Board could not properly make a value judgement of the kind envisaged between benefits "on" and "off" premises. But if you decide on a general exemption the importance and scope of the relief increases making it less suitable for an ESC on those grounds.

16. In short we think it would be difficult to justify disregarding the law on either basis by means of an ESC, and that we should be open to criticism if the change were not given a proper statutory basis in the Finance Bill.

17. Points for decision

1. Is the exemption for car parking to be general, or to apply only to parking on the employer's premises?

2. If the latter, is there to be a de minimis exemption from the charge on off-site parking? If so, is £200 about right?

3. Is the starting date to be 6 April 1988?

4. Should past years be handled in the same way as third party entertainment?

5. Is it agreed that the change should be included in the Finance Bill?

P LEWIS

Extra-Statutory Concessions, Statements of Practice, and Administrative ("de minimis") Arrangements

1. The circumstances in which Extra Statutory concessions are made are discussed in paragraphs 15 and 16. The distinctive feature is that they are concessions ie a tax liability which is clear in strict law is waived. Ministers have undertaken that all ESCs will be published.

2. In contrast, a Statement of Practice simply set out how the Revenue will interpret and apply a particular piece of tax law which has given rise to uncertainty among tax practitioners. It is thus a matter of clarification and practice, rather than concession.

3. The third category, administrative ("de minimis") arrangements, are concerned with not collecting tax in circumstances where the cost of doing so would probably be disproportionate to the yield. The most important one is the "assessing tolerance" under which we do not make assessments for small amounts of tax.

Evidence that there has been a slight slowdown in economic activity is reinforced by the responses in the survey on employment levels in their companies to rise over the next six months, this is a fall of 4 points since December and 17 points since the October 1987 survey.

Labour supply remains the main area of concern for 19 per cent of business leaders but this compares with a peak of 32 per cent in October.

Judith Chaplin, Head of the IOD Policy Unit said "There is evidence in this survey that some companies are experiencing a slowdown in business and growing numbers of business leaders are less confident about the future.

"It reinforces our judgement that the economy is not overheating and that the Chancellor should not be over-cautious in his Budget".

Over points from the survey:

* Cash Flow has overtaken labour supply as the "main concern" of directors over the next six months with 22 per cent reporting it to be a problem.
* Industrial Unrest is reported to be a business concern by 5 per cent of directors compared with 1 per cent in December.
* Variance of Marketing Effort is given by 75 per cent of directors as the main activity to improve company performance.

NOTE TO EDITORS

The IOD Business Opinion Survey was carried out by telephone among a structured sample panel of company chairmen, managing directors and other board executives in the first week of February.

The IOD represents 35,000 business men and women worldwide, with over 29,000 in the UK. There are IOD members on the boards of over 400 of the Times Top 500 Companies.

MC2.45

BUDGET SECRET - TASK FORCE LIST
Copy No. 1 of 10.

1. Alex
2. M
3. Jonathan
4 Andrew

FROM: MARK CALL
DATE: 29 FEBRUARY 1988

CHANCELLOR

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

5. Tony D

1. BES AND PRIVATE RENTED ACCOMMODATION

The same limit would apply to both ship chartering and private rented accommodation. The limit would be £5 million, although the Chancellor said it may be necessary to make concessions in Committee to raise this to £10 million. Accommodation for those on Housing Benefit should be eligible.

2. TOP SLICING

Mr Tyrie's minute of 24 February questioned whether the top slicing arrangements for farmers, writers and artists could not be discontinued. The Chancellor agreed that there was a case for abolishing farmers' averaging, but said that given the need to discuss this with the Secretary of State it was too late to consider this in the 1988 Budget. It would be worth looking at next year.

3. EUROPEAN COMMUNITY WHITE PAPER

The White Paper on developments in the European Community contained a very low-key section on indirect taxation. The Paymaster General would see whether this could be strengthened.

MC

MARK CALL

MC2.45

CONFIDENTIAL

FROM: MARK CALL
DATE: 29 FEBRUARY 1988

CHANCELLOR'S MORNING MEETING 21ST MEETING

NOTE FOR THE RECORD

Present: Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Mr Lennox-Boyd, MP
Mr Forman, MP
Mr Cropper
Mr Tyrie
Mr Call

1. CHIEF

There was a discussion of a number of options for the announcement on the CHIEF project by Customs and Excise. The Chancellor was concerned that Option C conceded too much and didn't make explicit the option of moving to external facilities management arrangements. However, with the appropriate caveats Option C would be acceptable. The Economic Secretary would follow up on this.

MC

MARK CALL