

PO-CH/N4/0490

PART D

PO CH/NL/0490
PART D.

PO CH/NL/0490
PART D

1989 BUDGET
STARTER

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM



FROM: R CM SATCHWELL
DATE: 13 February 1989

MRS MAJER - IR

cc PS/Chancellor
Mr Culpin
Mr Moore
Mr Odling-Smee
Mr Bent
Mr Gihooly
Mr M L Williams
Miss Hay
Mr Holgate
Mr Jenkins - OPC

Mr Farmer - IR
PS/IR

STARTER 455/114: EMPLOYEE SHARE OFFERS AND PRIVATISATION

The Financial Secretary was grateful for your minute of 10 February.

He agreed with your recommendation that the draft clause for Starter 114 (the technical improvements to the FA88 employee priority legislation) should be published by Press Release as soon as possible, since the electricity component of the legislation is unlikely to be ready in time for inclusion in the Finance Bill as published.

R.C.M.S.

R C M SATCHWELL
Private Secretary



FROM: J M G TAYLOR

DATE: 13 February 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Scholar
Mr Gilhooly
Mr de Berker
Miss Hay
Mr Knight
Mr Ramsden
Mrs Chaplin
Mr Tyrie
Mr Jenkins - OPC

Mr Lewis - IR
Mr Fraser - IR
Mr Wilcox - IR
PS/IR

STARTER 110: TAX TREATMENT OF LUMP SUM TERMINATION PAYMENTS TO EMPLOYEES

The Chancellor has seen the Financial Secretary's note of 10 February. He agrees with the Financial Secretary's conclusion that we should drop "Option 3". He also agrees that we should work up the idea of withdrawal of relief based on a threshold combining the lump sum and pay over the previous 12 months as a starter for next year's Bill.

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

J M G TAYLOR



Inland Revenue

Personal Tax Division
Somerset House

FROM: B A MACE

DATE: 13 FEBRUARY 1989

*Any news in
the earnings assumption (paras 6-10)?*

CHANCELLOR OF THE EXCHEQUER

*Thanks. No comment
Stark to A assumption.
(GAD) per Paul this
back from: 1 hour
just to check tables.*

*20
13/2*

STARTER 100 : MAIN INCOME TAX PROPOSALS

1. You may like to see, at an early stage, a draft of the specimen income tax tables that would normally be included in our Press Notice describing the effects of the main income tax changes. The tables attached are an initial version; they need more work (for example on selecting the appropriate income levels) and we have yet to consider the text of the Press Notice. The tables assume that

- allowances and the basic rate limit are indexed by 6.8 per cent;

cc. Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Scholar
 Mr Culpin
 Mr Riley
 Mr Sedgwick
 Mrs Chaplin
 Mr Tyrie
 Mr Call

Chairman
 Mr Painter
 Mr Lewis
 Mr Calder
 Mr Mace
 Mr Eason
 Miss White
 Mr Wardle
 PS/IR
 Mr Bush

- the age allowance for those aged 80 and over is extended to the over 75s;
- the withdrawal rate for the age allowance is reduced to £1 of allowances for every £2 of income above the income limit.

2. You may wish to note the following points from the tables.

Comparison with Indexation

3. Table 3, the comparison with indexation, shows no difference and should therefore be dropped this year.

Elderly

4. To show the effects of the extension of the over 80s age allowance to the over 75s there are three tables for the elderly for both annual and weekly figures (Tables 4A, 4B, 4C and 6A, 6B, 6C). The effect of changing the age allowance withdrawal rate (which is worth up to £63 per annum (£1.21 per week) for a married man on top of indexation) does not show up explicitly in the tables. It forms part of the relatively large gains going to those in the withdrawal band (income levels £11,000, £12,000 per annum, £220, £240 per week). We are considering whether to include some more income levels for this range.

NIC losers

5. Tables 7 and 8 show cash losers in the 'kink' above the Upper Earnings Limit. The income tax gain of £1.34 for a married man is more than offset by extra NIC of £1.80 (assuming contracted-in).

Earnings Assumption

6. Tables 7-12 are the so called "dynamic" tables which show the effect of the tax changes where earnings increase between 1988-89 and 1989-90. We have prepared two sets of these tables. The first shows the effects if the earnings increase between 1988-89 and 1989-90 is taken to be $7\frac{1}{2}$ per cent in line with the working assumption given to the GAD for the 1989-90 NIC uprating. This is the basis on which the tables have been produced for the last seven years. The second uses an earnings increase of 8.75 per cent between 1988-89 and 1989-90 in line with the latest published estimate by the Department of Employment of the underlying growth rate in average earnings. This is closer to the likely out-turn for the growth in average earnings between the two years (which the internal post-Budget forecast currently puts at $9\frac{1}{4}$ per cent).

7. We ought, perhaps, to review the basis of the earnings assumption for these tables this year. As in previous years there is some difference between the stylised GAD assumption and the likely out-turn on earnings but the gap this year is likely to be rather greater than usual. If we keep to the usual GAD assumption there are two potential disadvantages :-

- the Press Notice tables themselves might be criticised if they are seen to be based on an unrealistically low assumption;
- there might be some embarrassment in having to admit, for example, to the TCSC, that the (unpublished) figure for earnings growth in the Treasury forecast was significantly different from the figure used for illustrative purposes in the Press Notice tables. The forecasters could not use the GAD assumption for their

purposes since it is not a central forecast and would undermine the claim that a gradual rise in the personal sector savings ratio is envisaged.

8. There is no suggestion that the Press Notice tables should use the forecast figure for earnings growth. If we were to move away from the GAD assumption we would use an alternative stylised assumption and we would need to consider what it should be. We would have to use the same figure for the preparation of the usual tables of average rates and take home pay which go into the Budget Briefing.

9. Despite the potential awkwardness, however, there are some good arguments for keeping to the GAD assumption in the Press Notice tables and Budget Briefing:

(a) For the last 7 years the GAD assumption has provided a consistent basis and has never excited comment or controversy. Making a change in the basis of the assumptions this year might produce questions about why the change had been made.

(b) Once the change had been made we would have to stick to the new basis for the future. It would be difficult to change back to the GAD basis next year, if that were considered to give a more satisfactory result, without facing a charge of inconsistency.

(c) Using a higher earnings figure than the GAD assumption might lead commentators to think that the projected surplus on the National Insurance Fund would be even higher than previously forecast.

(d) Using as a forecast a stylised assumption based on the latest historical trend would generally produce similar growth rates for the two years. For example we

would now be taking 8.3/4 per cent for growth between 1987-88 and 1988-89 as well as from 1988-89 to 1989-90. This might contrast oddly with the Autumn Statement description of the GAD assumption:

"The increase in average earnings is expected to decline from about 8.3/4 per cent between financial years 1987-88 and 1988-89 to about 7½ per cent between financial years 1988-89 and 1989-90."

(e) The Press Notice tables will show a bigger rise in average rates of tax and NIC on an 8.3/4 per cent assumption than on a 7½ per cent assumption. At low levels of earnings the increase is 0.3 or 0.4 percentage points under the 8.3/4 per cent assumption while the increase is generally no more than 0.1 in the 7½ per cent variant. Of course the increase in average take home pay is higher under the 8.3/4 per cent assumption. At low levels of earnings the percentage increases for a married couple with two children (taking account of child benefit) range from 6.1 per cent to 6.8 per cent under the 7½ per cent assumption. Although the increase is between 0.8 to 1.0 points greater under the 8.3/4 per cent assumption the increases under the 7½ per cent variant are nevertheless likely to exceed RPI growth with something to spare.

(f) There might be pressure to recalculate the relevant parts of the Budget brief and Press Notice as the estimate of underlying trend changes during the course of the Finance Bill.

10. On balance our own preference, and that of MP Division would be to keep to the GAD assumption; we think there is little to be gained by moving away from it. The forecasters, on the other hand, would prefer a different stylised assumption, closer to the likely out-turn. We should welcome any views you may have on this.

Families with children

11. Table 11, which takes account of child benefit as well as income tax and NIC, shows that the change in net income for families with children is well below the rise in gross earnings for all the income ranges. Although not shown explicitly, the table also allows the increase in the average rate of income tax, NIC, less child benefit to be calculated. For example, at £200 per week in 1988-89, (and with $7\frac{1}{2}$ per cent earnings growth) it will increase from 16.9 per cent to 17.5 per cent in 1989-90. At $8\frac{3}{4}$ per cent earnings growth the average rate increases to 17.7 per cent.

B A Mace

B A MACE

TABLE 1

SINGLE PERSONS - ANNUAL FIGURES

Income	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
3,000	99	3.3	54	1.8	45	1.5
4,000	349	8.7	304	7.6	45	1.1
5,000	599	12.0	554	11.1	45	0.9
6,000	849	14.2	804	13.4	45	0.8
7,000	1,099	15.7	1,054	15.1	45	0.6
8,000	1,349	16.9	1,304	16.3	45	0.6
9,000	1,599	17.8	1,554	17.3	45	0.5
10,000	1,849	18.5	1,804	18.0	45	0.4
12,000	2,349	19.6	2,304	19.2	45	0.4
14,000	2,849	20.4	2,804	20.0	45	0.3
16,000	3,349	20.9	3,304	20.6	45	0.3
18,000	3,849	21.4	3,804	21.1	45	0.2
20,000	4,349	21.7	4,304	21.5	45	0.2
25,000	6,063	24.3	5,781	23.1	282	1.1
30,000	8,063	26.9	7,781	25.9	282	0.9
40,000	12,063	30.2	11,781	29.5	282	0.7
50,000	16,063	32.1	15,781	31.6	282	0.6
60,000	20,063	33.4	19,781	33.0	282	0.5
70,000	24,063	34.4	23,781	34.0	282	0.4

TABLE 2

MARRIED COUPLES - ANNUAL FIGURES

Income	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
4,000	0	0.0	0	0.0	0	0.0
5,000	226	4.5	156	3.1	70	1.4
6,000	476	7.9	406	6.8	70	1.2
7,000	726	10.4	656	9.4	70	1.0
8,000	976	12.2	906	11.3	70	0.9
9,000	1,226	13.6	1,156	12.8	70	0.8
10,000	1,476	14.8	1,406	14.1	70	0.7
12,000	1,976	16.5	1,906	15.9	70	0.6
14,000	2,476	17.7	2,406	17.2	70	0.5
16,000	2,976	18.6	2,906	18.2	70	0.4
18,000	3,476	19.3	3,406	18.9	70	0.4
20,000	3,976	19.9	3,906	19.5	70	0.4
25,000	5,467	21.9	5,156	20.6	311	1.2
30,000	7,467	24.9	7,145	23.8	322	1.1
40,000	11,467	28.7	11,145	27.9	322	0.8
50,000	15,467	30.9	15,145	30.3	322	0.6
60,000	19,467	32.4	19,145	31.9	322	0.5
70,000	23,467	33.5	23,145	33.1	322	0.5

Calculations assume that only the husband has earned income.

TABLE 3

SINGLE PERSONS AND MARRIED COUPLES - ANNUAL FIGURES

COMPARISON BETWEEN INDEXATION FOR 1989-90 AND
PROPOSED CHARGE FOR 1989-90

Income £	Charge under Indexation ¹		Proposed charge for 1989-90		Reduction in tax over Indexation	
	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,000	54	1.8	54	1.8	0	0.0
4,000	304	7.6	304	7.6	0	0.0
6,000	804	13.4	804	13.4	0	0.0
8,000	1,304	16.3	1,304	16.3	0	0.0
10,000	1,804	18.0	1,804	18.0	0	0.0
12,000	2,304	19.2	2,304	19.2	0	0.0
15,000	3,054	20.4	3,054	20.4	0	0.0
20,000	4,304	21.5	4,304	21.5	0	0.0
25,000	5,781	23.1	5,781	23.1	0	0.0
30,000	7,781	25.9	7,781	25.9	0	0.0
40,000	11,781	29.5	11,781	29.5	0	0.0
50,000	15,781	31.6	15,781	31.6	0	0.0
60,000	19,781	33.0	19,781	33.0	0	0.0
70,000	23,781	34.0	23,781	34.0	0	0.0
MARRIED COUPLES ²						
4,000	0	0.0	0	0.0	0	0.0
6,000	406	6.8	406	6.8	0	0.0
8,000	906	11.3	906	11.3	0	0.0
10,000	1,406	14.1	1,406	14.1	0	0.0
12,000	1,906	15.9	1,906	15.9	0	0.0
15,000	2,656	17.7	2,656	17.7	0	0.0
20,000	3,906	19.5	3,906	19.5	0	0.0
25,000	5,156	20.6	5,156	20.6	0	0.0
30,000	7,145	23.8	7,145	23.8	0	0.0
40,000	11,145	27.9	11,145	27.9	0	0.0
50,000	15,145	30.3	15,145	30.3	0	0.0
60,000	19,145	31.9	19,145	31.9	0	0.0
70,000	23,145	33.1	23,145	33.1	0	0.0

¹ Assuming allowances and thresholds are indexed in accordance with Section 24, Finance Act 1980.² Calculations assume that only the husband has earned income.

SECRET

TABLE 4A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-74 - ANNUAL FIGURES

Income	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,000	0	0.0	0	0.0	0	0.0
4,000	205	5.1	150	3.8	55	1.4
5,000	455	9.1	400	8.0	55	1.1
6,000	705	11.8	650	10.8	55	0.9
7,000	955	13.6	900	12.9	55	0.8
8,000	1,205	15.1	1,150	14.4	55	0.7
9,000	1,455	16.2	1,400	15.6	55	0.6
10,000	1,705	17.0	1,650	16.5	55	0.6
11,000	2,022	18.4	1,900	17.3	122	1.1
12,000	2,349	19.6	2,225	18.5	124	1.0
14,000	2,849	20.4	2,804	20.0	45	0.3
MARRIED COUPLES ¹						
5,000	0	0.0	0	0.0	0	0.0
6,000	241	4.0	154	2.6	87	1.4
7,000	491	7.0	404	5.8	87	1.2
8,000	741	9.3	654	8.2	87	1.1
9,000	991	11.0	904	10.0	87	1.0
10,000	1,241	12.4	1,154	11.5	87	0.9
11,000	1,558	14.2	1,404	12.8	154	1.4
12,000	1,975	16.5	1,729	14.4	246	2.0
14,000	2,476	17.7	2,406	17.2	70	0.5

¹ Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

SECRET

TABLE 4B

SINGLE PERSONS AND MARRIED COUPLES AGED 75-79 - ANNUAL FIGURES

Income	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
4,000	205	5.1	115	2.9	90	2.2
5,000	455	9.1	365	7.3	90	1.8
6,000	705	11.8	615	10.2	90	1.5
7,000	955	13.6	865	12.4	90	1.3
8,000	1,205	15.1	1,115	13.9	90	1.1
9,000	1,455	16.2	1,365	15.2	90	1.0
10,000	1,705	17.0	1,615	16.2	90	0.9
11,000	2,022	18.4	1,865	17.0	157	1.4
12,000	2,349	19.6	2,190	18.2	159	1.3
14,000	2,849	20.4	2,804	20.0	45	0.3
MARRIED COUPLES¹						
5,000	0	0.0	0	0.0	0	0.0
6,000	241	4.0	109	1.8	132	2.2
7,000	491	7.0	359	5.1	132	1.9
8,000	741	9.3	609	7.6	132	1.6
9,000	991	11.0	859	9.5	132	1.5
10,000	1,241	12.4	1,109	11.1	132	1.3
11,000	1,558	14.2	1,359	12.4	199	1.8
12,000	1,975	16.5	1,684	14.0	291	2.4
14,000	2,476	17.7	2,406	17.2	70	0.5

¹ Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

SECRET

TABLE 4C

SINGLE PERSONS AND MARRIED COUPLES AGED 80 AND OVER - ANNUAL FIGURES

Income	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
4,000	172	4.3	115	2.9	57	1.4
5,000	422	8.4	365	7.3	57	1.1
6,000	672	11.2	615	10.2	57	1.0
7,000	922	13.2	865	12.4	57	0.8
8,000	1,172	14.6	1,115	13.9	57	0.7
9,000	1,422	15.8	1,365	15.2	57	0.6
10,000	1,672	16.7	1,615	16.2	57	0.6
11,000	1,989	18.1	1,865	17.0	124	1.1
12,000	2,349	19.6	2,190	18.2	159	1.3
14,000	2,849	20.4	2,804	20.0	45	0.3
MARRIED COUPLES¹						
5,000	0	0.0	0	0.0	0	0.0
6,000	199	3.3	109	1.8	90	1.5
7,000	449	6.4	359	5.1	90	1.3
8,000	699	8.7	609	7.6	90	1.1
9,000	949	10.5	859	9.5	90	1.0
10,000	1,199	12.0	1,109	11.1	90	0.9
11,000	1,515	13.8	1,359	12.4	156	1.4
12,000	1,932	16.1	1,684	14.0	248	2.1
14,000	2,476	17.7	2,406	17.2	70	0.5

¹ Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Tables 1 and 2.

TABLE 5

SINGLE PERSONS AND MARRIED COUPLES - WEEKLY FIGURES

Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change		
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
50.00	0.00	0.0	0.00	0.0	0.00	0.0
60.00	2.48	4.1	1.61	2.7	0.87	1.4
70.00	4.98	7.1	4.11	5.9	0.87	1.2
80.00	7.48	9.4	6.61	8.3	0.87	1.1
90.00	9.98	11.1	9.11	10.1	0.87	1.0
95.00	11.23	11.8	10.36	10.9	0.87	0.9
100.00	12.48	12.5	11.61	11.6	0.87	0.9
120.00	17.48	14.6	16.61	13.8	0.87	0.7
140.00	22.48	16.1	21.61	15.4	0.87	0.6
160.00	27.48	17.2	26.61	16.6	0.87	0.5
180.00	32.48	18.0	31.61	17.6	0.87	0.5
200.00	37.48	18.7	36.61	18.3	0.87	0.4
250.00	49.98	20.0	49.11	19.6	0.87	0.3
300.00	62.48	20.8	61.61	20.5	0.87	0.3
350.00	74.98	21.4	74.11	21.2	0.87	0.2
400.00	87.48	21.9	86.61	21.7	0.87	0.2
500.00	124.29	24.9	118.87	23.8	5.42	1.1
600.00	164.29	27.4	158.87	26.5	5.42	0.9
MARRIED COUPLES¹						
80.00	0.31	0.4	0.00	0.0	0.31	0.4
90.00	2.81	3.1	1.47	1.6	1.34	1.5
100.00	5.31	5.3	3.97	4.0	1.34	1.3
120.00	10.31	8.6	8.97	7.5	1.34	1.1
140.00	15.31	10.9	13.97	10.0	1.34	1.0
160.00	20.31	12.7	18.97	11.9	1.34	0.8
180.00	25.31	14.1	23.97	13.3	1.34	0.7
200.00	30.31	15.2	28.97	14.5	1.34	0.7
250.00	42.81	17.1	41.47	16.6	1.34	0.5
300.00	55.31	18.4	53.97	18.0	1.34	0.4
350.00	67.81	19.4	66.47	19.0	1.34	0.4
400.00	80.31	20.1	78.97	19.7	1.34	0.3
500.00	112.83	22.6	106.63	21.3	6.20	1.2
600.00	152.83	25.5	146.63	24.4	6.20	1.0

¹ Calculations assume that only the husband has earned income.

SECRET

TABLE 6A

SINGLE PERSONS AND MARRIED COUPLES AGED 65-74 - WEEKLY FIGURES

Income	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
60.00	0.00	0.0	0.00	0.0	0.00	0.0
80.00	4.71	5.9	3.65	4.6	1.06	1.3
100.00	9.71	9.7	8.65	8.6	1.06	1.1
120.00	14.71	12.3	13.65	11.4	1.06	0.9
140.00	19.71	14.1	18.65	13.3	1.06	0.8
160.00	24.71	15.4	23.65	14.8	1.06	0.7
180.00	29.71	16.5	28.65	15.9	1.06	0.6
200.00	34.71	17.4	33.65	16.8	1.06	0.5
220.00	42.40	19.3	38.75	17.6	3.65	1.7
240.00	47.48	19.8	46.25	19.3	1.23	0.5
260.00	52.48	20.2	51.61	19.8	0.87	0.3
MARRIED COUPLES¹						
100.00	0.79	0.8	0.00	0.0	0.79	0.8
120.00	5.79	4.8	4.11	3.4	1.68	1.4
140.00	10.79	7.7	9.11	6.5	1.68	1.2
160.00	15.79	9.9	14.11	8.8	1.68	1.0
180.00	20.79	11.6	19.11	10.6	1.68	0.9
200.00	25.79	12.9	24.11	12.1	1.68	0.8
220.00	33.49	15.2	29.21	13.3	4.28	1.9
240.00	40.31	16.8	36.71	15.3	3.60	1.5
260.00	45.31	17.4	43.97	16.9	1.34	0.5

¹ Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Table 5.

SECRET

TABLE 6B

SINGLE PERSONS AND MARRIED COUPLES AGED 75-79 - WEEKLY FIGURES

Income	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
60.00	0.00	0.0	0.00	0.0	0.00	0.0
80.00	4.71	5.9	2.98	3.7	1.73	2.2
100.00	9.71	9.7	7.98	8.0	1.73	1.7
120.00	14.71	12.3	12.98	10.8	1.73	1.4
140.00	19.71	14.1	17.98	12.8	1.73	1.2
160.00	24.71	15.4	22.98	14.4	1.73	1.1
180.00	29.71	16.5	27.98	15.5	1.73	1.0
200.00	34.71	17.4	32.98	16.5	1.73	0.9
220.00	42.40	19.3	38.08	17.3	4.32	2.0
240.00	47.48	19.8	45.58	19.0	1.90	0.8
260.00	52.48	20.2	51.61	19.8	0.87	0.3
MARRIED COUPLES¹						
100.00	0.79	0.8	0.00	0.0	0.79	0.8
120.00	5.79	4.8	3.25	2.7	2.54	2.1
140.00	10.79	7.7	8.25	5.9	2.54	1.8
160.00	15.79	9.9	13.25	8.3	2.54	1.6
180.00	20.79	11.6	18.25	10.1	2.54	1.4
200.00	25.79	12.9	23.25	11.6	2.54	1.3
220.00	33.49	15.2	28.34	12.9	5.15	2.3
240.00	40.31	16.8	35.84	14.9	4.47	1.9
260.00	45.31	17.4	43.34	16.7	1.97	0.8

¹ Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Table 5.

SECRET

TABLE 6C

SINGLE PERSONS AND MARRIED COUPLES AGED 80 AND OVER - WEEKLY FIGURES

Income	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
60.00	0.00	0.0	0.00	0.0	0.00	0.0
80.00	4.09	5.1	2.98	3.7	1.11	1.4
100.00	9.09	9.1	7.98	8.0	1.11	1.1
120.00	14.09	11.7	12.98	10.8	1.11	0.9
140.00	19.09	13.6	17.98	12.8	1.11	0.8
160.00	24.09	15.1	22.98	14.4	1.11	0.7
180.00	29.09	16.2	27.98	15.5	1.11	0.6
200.00	34.09	17.0	32.98	16.5	1.11	0.6
220.00	41.78	19.0	38.08	17.3	3.70	1.7
240.00	47.48	19.8	45.58	19.0	1.90	0.8
260.00	52.48	20.2	51.61	19.8	0.87	0.3
MARRIED COUPLES¹						
100.00	0.00	0.0	0.00	0.0	0.00	0.0
120.00	4.98	4.2	3.25	2.7	1.73	1.4
140.00	9.98	7.1	8.25	5.9	1.73	1.2
160.00	14.98	9.4	13.25	8.3	1.73	1.1
180.00	19.98	11.1	18.25	10.1	1.73	1.0
200.00	24.98	12.5	23.25	11.6	1.73	0.9
220.00	32.67	14.8	28.34	12.9	4.33	2.0
240.00	40.31	16.8	35.84	14.9	4.47	1.9
260.00	45.31	17.4	43.34	16.7	1.97	0.8

¹ Calculations assume that the wife has no earnings or pension in her own right.

For incomes above these levels, the figures are the same as those in Table 5.

TABLE 7

SINGLE AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES
INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS

Charge for 1988-89				Proposed charge for 1989-90			Reduction in tax and NIC after proposed change	
Income	Income tax	NIC ¹	Net income after tax and NIC	Income tax	NIC ¹	Net income after tax and NIC	Income tax and NIC	As percentage of total income
£	£	£	£	£	£	£	£	per cent
SINGLE PERSONS								
50.00	0.00	2.50	47.50	0.00	2.50	47.50	0.00	0.0
60.00	2.48	3.00	54.52	1.61	3.00	55.39	0.87	1.4
65.00	3.73	3.25	58.02	2.86	3.25	58.89	0.87	1.3
70.00	4.98	4.90	60.12	4.11	3.50	62.39	2.27	3.2
80.00	7.48	5.60	66.92	6.61	5.60	67.79	0.87	1.1
90.00	9.98	6.30	73.72	9.11	6.30	74.59	0.87	1.0
100.00	12.48	7.00	80.52	11.61	7.00	81.39	0.87	0.9
120.00	17.48	10.80	91.72	16.61	10.80	92.59	0.87	0.7
140.00	22.48	12.60	104.92	21.61	12.60	105.79	0.87	0.6
160.00	27.48	14.40	118.12	26.61	14.40	118.99	0.87	0.5
180.00	32.48	16.20	131.32	31.61	16.20	132.19	0.87	0.5
200.00	37.48	18.00	144.52	36.61	18.00	145.39	0.87	0.4
250.00	49.98	22.50	177.52	49.11	22.50	178.39	0.87	0.3
300.00	62.48	27.00	210.52	61.61	27.00	211.39	0.87	0.3
305.00	63.73	27.45	213.82	62.86	27.45	214.69	0.87	0.3
325.00	68.73	27.45	228.82	67.86	29.25	227.89	-0.93	-0.3
350.00	74.98	27.45	247.57	74.11	29.25	246.64	-0.93	-0.3
400.00	87.48	27.45	285.07	86.61	29.25	284.14	-0.93	-0.2
500.00	124.29	27.45	348.26	118.87	29.25	351.88	3.62	0.7
600.00	164.29	27.45	408.26	158.87	29.25	411.88	3.62	0.6
MARRIED COUPLES ²								
80.00	0.31	5.60	74.09	0.00	5.60	74.40	0.31	0.4
90.00	2.81	6.30	80.89	1.47	6.30	82.23	1.34	1.5
100.00	5.31	7.00	87.69	3.97	7.00	89.03	1.34	1.3
120.00	10.31	10.80	98.89	8.97	10.80	100.23	1.34	1.1
140.00	15.31	12.60	112.09	13.97	12.60	113.43	1.34	1.0
160.00	20.31	14.40	125.29	18.97	14.40	126.63	1.34	0.8
180.00	25.31	16.20	138.49	23.97	16.20	139.83	1.34	0.7
200.00	30.31	18.00	151.69	28.97	18.00	153.03	1.34	0.7
250.00	42.81	22.50	184.69	41.47	22.50	186.03	1.34	0.5
300.00	55.31	27.00	217.69	53.97	27.00	219.03	1.34	0.4
305.00	56.56	27.45	220.99	55.22	27.45	222.33	1.34	0.4
325.00	61.56	27.45	235.99	60.22	29.25	235.53	-0.46	-0.1
350.00	67.81	27.45	254.74	66.47	29.25	254.28	-0.46	-0.1
400.00	80.31	27.45	292.24	78.97	29.25	291.78	-0.46	-0.1
500.00	112.83	27.45	359.72	106.63	29.25	364.12	4.40	0.9
600.00	152.83	27.45	419.72	146.63	29.25	424.12	4.40	0.7

¹ National Insurance Contributions are at the standard Class 1 rate for employees contracted-in to the State additional (earnings related) pension scheme.

² Calculations assume that only the husband has earned income.

TABLE 8

MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

Weekly income in 1988-89					Weekly income in 1989-90				Increase in income after tax, NIC and child benefit	
Income ¹	Child benefit	Income tax	NIC ²	Net income ³	Child benefit	Income tax	NIC ²	Net income ³	Increase in income	As percentage of total income per cent
£	£	£	£	£	£	£	£	£	£	
80.00	14.50	0.31	5.60	88.59	14.50	0.00	5.60	88.90	0.31	0.4
90.00	14.50	2.81	6.30	95.39	14.50	1.47	6.30	96.73	1.34	1.5
100.00	14.50	5.31	7.00	102.19	14.50	3.97	7.00	103.53	1.34	1.3
120.00	14.50	10.31	10.80	113.39	14.50	8.97	10.80	114.73	1.34	1.1
140.00	14.50	15.31	12.60	126.59	14.50	13.97	12.60	127.93	1.34	1.0
160.00	14.50	20.31	14.40	139.79	14.50	18.97	14.40	141.13	1.34	0.8
180.00	14.50	25.31	16.20	152.99	14.50	23.97	16.20	154.33	1.34	0.7
200.00	14.50	30.31	18.00	166.19	14.50	28.97	18.00	167.53	1.34	0.7
250.00	14.50	42.81	22.50	199.19	14.50	41.47	22.50	200.53	1.34	0.5
300.00	14.50	55.31	27.00	232.19	14.50	53.97	27.00	233.53	1.34	0.4
305.00	14.50	56.56	27.45	235.49	14.50	55.22	27.45	236.83	1.34	0.4
325.00	14.50	61.56	27.45	250.49	14.50	60.22	29.25	250.03	-0.46	-0.1
350.00	14.50	67.81	27.45	269.24	14.50	66.47	29.25	268.78	-0.46	-0.1
400.00	14.50	80.31	27.45	306.74	14.50	78.97	29.25	306.28	-0.46	-0.1
500.00	14.50	112.83	27.45	374.22	14.50	106.63	29.25	378.62	4.40	0.9
600.00	14.50	152.83	27.45	434.22	14.50	146.63	29.25	438.62	4.40	0.7

¹ Calculations assume that only the husband has earned income.

² National Insurance Contributions are at the standard Class 1 rate for employees contracted-in to the State additional (earnings related) pension scheme.

³ Net income is earnings, less tax and National Insurance Contributions, plus child benefit. It does not include any income-related benefit.

7½ per cent
Earnings Growth

TABLE 9

SINGLE PERSONS AND MARRIED COUPLES

COMPARISON BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 7½ PER CENT

Charge for 1988-89			Proposed charge for 1989-90			
Income	Income tax	Percentage of total income taken in tax	Adjusted income ¹	Income tax	Percentage of total income taken in tax	Percentage change in net income
£	£	per cent	£	£	per cent	per cent
SINGLE PERSONS						
3,000	99	3.3	3,225	110	3.4	7.4
4,000	349	8.7	4,300	379	8.8	7.4
6,000	849	14.2	6,450	916	14.2	7.4
8,000	1,349	16.9	8,600	1,454	16.9	7.4
10,000	1,849	18.5	10,750	1,991	18.5	7.5
12,000	2,349	19.6	12,900	2,529	19.6	7.5
15,000	3,099	20.7	16,125	3,335	20.7	7.5
20,000	4,349	21.7	21,500	4,679	21.8	7.5
25,000	6,063	24.3	26,875	6,531	24.3	7.4
30,000	8,063	26.9	32,250	8,681	26.9	7.4
40,000	12,063	30.2	43,000	12,981	30.2	7.5
50,000	16,063	32.1	53,750	17,281	32.2	7.5
60,000	20,063	33.4	64,500	21,581	33.5	7.5
70,000	24,063	34.4	75,250	25,881	34.4	7.5
MARRIED COUPLES ²						
4,000	0	0.0	4,300	0	0.0	7.5
6,000	476	7.9	6,450	519	8.0	7.4
8,000	976	12.2	8,600	1,056	12.3	7.4
10,000	1,476	14.8	10,750	1,594	14.8	7.4
12,000	1,976	16.5	12,900	2,131	16.5	7.4
15,000	2,726	18.2	16,125	2,938	18.2	7.4
20,000	3,976	19.9	21,500	4,281	19.9	7.5
25,000	5,467	21.9	26,875	5,895	21.9	7.4
30,000	7,467	24.9	32,250	8,045	24.9	7.4
40,000	11,467	28.7	43,000	12,345	28.7	7.4
50,000	15,467	30.9	53,750	16,645	31.0	7.4
60,000	19,467	32.4	64,500	20,945	32.5	7.5
70,000	23,467	33.5	75,250	25,245	33.5	7.5

¹ The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 7½ per cent.

² Calculations assume that only the husband has earned income.

SECRET

8 3/4 per cent
Earnings Growth

TABLE 9

SINGLE PERSONS AND MARRIED COUPLES

COMPARISON BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 8 3/4 PER CENT

Charge for 1988-89			Proposed charge for 1989-90			
Income	Income tax	Percentage of total income taken in tax	Adjusted income ¹	Income tax	Percentage of total income taken in tax	Percentage change in net income
£	£	per cent	£	£	per cent	per cent
SINGLE PERSONS						
3,000	99	3.3	3,262	119	3.6	8.4
4,000	349	8.7	4,350	391	9.0	8.4
6,000	849	14.2	6,525	935	14.3	8.5
8,000	1,349	16.9	8,700	1,479	17.0	8.6
10,000	1,849	18.5	10,875	2,022	18.6	8.6
12,000	2,349	19.6	13,050	2,566	19.7	8.6
15,000	3,099	20.7	16,313	3,382	20.7	8.7
20,000	4,349	21.7	21,750	4,741	21.8	8.7
25,000	6,063	24.3	27,187	6,656	24.5	8.4
30,000	8,063	26.9	32,625	8,831	27.1	8.5
40,000	12,063	30.2	43,500	13,181	30.3	8.5
50,000	16,063	32.1	54,375	17,531	32.2	8.6
60,000	20,063	33.4	65,250	21,881	33.5	8.6
70,000	24,063	34.4	76,125	26,231	34.5	8.6
MARRIED COUPLES²						
4,000	0	0.0	4,350	0	0.0	8.8
6,000	476	7.9	6,525	538	8.2	8.4
8,000	976	12.2	8,700	1,081	12.4	8.5
10,000	1,476	14.8	10,875	1,625	14.9	8.5
12,000	1,976	16.5	13,050	2,169	16.6	8.5
15,000	2,726	18.2	16,313	2,984	18.3	8.6
20,000	3,976	19.9	21,750	4,344	20.0	8.6
25,000	5,467	21.9	27,187	6,020	22.1	8.4
30,000	7,467	24.9	32,625	8,195	25.1	8.4
40,000	11,467	28.7	43,500	12,545	28.8	8.5
50,000	15,467	30.9	54,375	16,895	31.1	8.5
60,000	19,467	32.4	65,250	21,245	32.6	8.6
70,000	23,467	33.5	76,125	25,595	33.6	8.6

¹ The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 8 3/4 per cent.

² Calculations assume that only the husband has earned income.

7½ per cent
Earnings Growth

TABLE 10

SINGLE PERSONS AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES
 COMPARISON OF INCOME AFTER INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS
 BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 7½ PER CENT

Charge for 1988-89				Proposed charge for 1989-90				
Income	Income tax	NIC ¹	Percentage of total income taken in tax and NIC	Adjusted income ²	Income tax	NIC ¹	Percentage of total income taken in tax and NIC	Percentage change in income after tax and NIC
£	£	£	per cent	£	£	£	per cent	per cent
SINGLE PERSONS								
50.00	0.00	2.50	5.0	53.75	0.05	2.68	5.1	7.4
60.00	2.48	3.00	9.1	64.50	2.74	3.22	9.2	7.4
65.00	3.73	3.25	10.7	69.88	4.08	3.49	10.8	7.4
70.00	4.98	4.90	14.1	75.25	5.42	5.26	14.2	7.4
80.00	7.48	5.60	16.4	86.00	8.11	6.02	16.4	7.4
90.00	9.98	6.30	18.1	96.75	10.80	6.77	18.2	7.4
100.00	12.48	7.00	19.5	107.50	13.49	7.52	19.5	7.4
120.00	17.48	10.80	23.6	129.00	18.86	11.61	23.6	7.4
140.00	22.48	12.60	25.1	150.50	24.24	13.54	25.1	7.4
160.00	27.48	14.40	26.2	172.00	29.61	15.48	26.2	7.4
180.00	32.48	16.20	27.0	193.50	34.99	17.41	27.1	7.4
200.00	37.48	18.00	27.7	215.00	40.36	19.35	27.8	7.5
250.00	49.98	22.50	29.0	268.75	53.80	24.18	29.0	7.5
300.00	62.48	27.00	29.8	322.50	67.24	29.02	29.8	7.5
305.00	63.73	27.45	29.9	327.88	68.58	29.25	29.8	7.6
325.00	68.73	27.45	29.6	349.38	73.96	29.25	29.5	7.6
350.00	74.98	27.45	29.3	376.25	80.67	29.25	29.2	7.6
400.00	87.48	27.45	28.7	430.00	94.11	29.25	28.7	7.6
500.00	124.29	27.45	30.3	537.50	133.87	29.25	30.3	7.5
600.00	164.29	27.45	32.0	645.00	176.87	29.25	32.0	7.5
MARRIED COUPLES ³								
80.00	0.31	5.60	7.4	86.00	0.47	6.02	7.5	7.3
90.00	2.81	6.30	10.1	96.75	3.15	6.77	10.3	7.3
100.00	5.31	7.00	12.3	107.50	5.84	7.52	12.4	7.4
120.00	10.31	10.80	17.6	129.00	11.22	11.61	17.7	7.4
140.00	15.31	12.60	19.9	150.50	16.59	13.54	20.0	7.4
160.00	20.31	14.40	21.7	172.00	21.97	15.48	21.8	7.4
180.00	25.31	16.20	23.1	193.50	27.34	17.41	23.1	7.4
200.00	30.31	18.00	24.2	215.00	32.72	19.35	24.2	7.4
250.00	42.81	22.50	26.1	268.75	46.15	24.18	26.2	7.4
300.00	55.31	27.00	27.4	322.50	59.59	29.02	27.5	7.4
305.00	56.56	27.45	27.5	327.88	60.94	29.25	27.5	7.6
325.00	61.56	27.45	27.4	349.38	66.31	29.25	27.4	7.6
350.00	67.81	27.45	27.2	376.25	73.03	29.25	27.2	7.5
400.00	80.31	27.45	26.9	430.00	86.47	29.25	26.9	7.5
500.00	112.83	27.45	28.1	537.50	121.63	29.25	28.1	7.5
600.00	152.83	27.45	30.0	645.00	164.63	29.25	30.1	7.5

¹ National Insurance Contributions are at the standard Class 1 rate for employees contracted-in to the State additional (earnings related) pension scheme.

² The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 7½ per cent.

³ Calculations assume that only the husband has earned income.

TABLE 10

SINGLE PERSONS AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES
COMPARISON OF INCOME AFTER INCOME TAX AND NATIONAL INSURANCE CONTRIBUTIONS
BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 8 3/4 PER CENT

Charge for 1988-89				Proposed charge for 1989-90				
Income	Income tax	NIC ¹	Percentage of total income taken in tax and NIC	Adjusted income ²	Income tax	NIC ¹	Percentage of total income taken in tax and NIC	Percentage change in income after tax and NIC
£	£	£	per cent	£	£	£	per cent	per cent
SINGLE PERSONS								
50.00	0.00	2.50	5.0	54.38	0.21	2.71	5.4	8.3
60.00	2.48	3.00	9.1	65.25	2.92	3.26	9.5	8.3
65.00	3.73	3.25	10.7	70.69	4.28	3.53	11.0	8.4
70.00	4.98	4.90	14.1	76.12	5.64	5.32	14.4	8.4
80.00	7.48	5.60	16.4	87.00	8.36	6.09	16.6	8.4
90.00	9.98	6.30	18.1	97.88	11.08	6.85	18.3	8.5
100.00	12.48	7.00	19.5	108.75	13.80	7.61	19.7	8.5
120.00	17.48	10.80	23.6	130.50	19.24	11.74	23.7	8.5
140.00	22.48	12.60	25.1	152.25	24.67	13.70	25.2	8.5
160.00	27.48	14.40	26.2	174.00	30.11	15.66	26.3	8.6
180.00	32.48	16.20	27.0	195.75	35.55	17.61	27.2	8.6
200.00	37.48	18.00	27.7	217.50	40.99	19.57	27.8	8.6
250.00	49.98	22.50	29.0	271.88	54.58	24.46	29.1	8.6
300.00	62.48	27.00	29.8	326.25	68.17	29.25	29.9	8.7
305.00	63.73	27.45	29.9	331.69	69.53	29.25	29.8	8.9
325.00	68.73	27.45	29.6	353.44	74.97	29.25	29.5	8.9
350.00	74.98	27.45	29.3	380.62	81.77	29.25	29.2	8.9
400.00	87.48	27.45	28.7	435.00	95.36	29.25	28.6	8.9
500.00	124.29	27.45	30.3	543.75	136.37	29.25	30.5	8.6
600.00	164.29	27.45	32.0	652.50	179.87	29.25	32.0	8.6
MARRIED COUPLES ³								
80.00	0.31	5.60	7.4	87.00	0.72	6.09	7.8	8.2
90.00	2.81	6.30	10.1	97.88	3.44	6.85	10.5	8.3
100.00	5.31	7.00	12.3	108.75	6.15	7.61	12.7	8.3
120.00	10.31	10.80	17.6	130.50	11.59	11.74	17.9	8.4
140.00	15.31	12.60	19.9	152.25	17.03	13.70	20.2	8.4
160.00	20.31	14.40	21.7	174.00	22.47	15.66	21.9	8.4
180.00	25.31	16.20	23.1	195.75	27.90	17.61	23.2	8.5
200.00	30.31	18.00	24.2	217.50	33.34	19.57	24.3	8.5
250.00	42.81	22.50	26.1	271.88	46.94	24.46	26.3	8.5
300.00	55.31	27.00	27.4	326.25	60.53	29.25	27.5	8.6
305.00	56.56	27.45	27.5	331.69	61.89	29.25	27.5	8.9
325.00	61.56	27.45	27.4	353.44	67.33	29.25	27.3	8.8
350.00	67.81	27.45	27.2	380.62	74.12	29.25	27.2	8.8
400.00	80.31	27.45	26.9	435.00	87.72	29.25	26.9	8.8
500.00	112.83	27.45	28.1	543.75	124.13	29.25	28.2	8.5
600.00	152.83	27.45	30.0	652.50	167.63	29.25	30.2	8.6

¹ National Insurance Contributions are at the standard Class 1 rate for employees contracted-in to the State additional (earnings related) pension scheme.

² The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 8 3/4 per cent.

³ Calculations assume that only the husband has earned income.

7½ per cent
Earnings Growth

TABLE 11

MARRIED COUPLE WITH TWO CHILDREN - INCOME ALL EARNED - WEEKLY FIGURES

COMPARISON OF INCOME AFTER INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 7½ PER CENT

1988-89					1989-90					
Income ¹	Child Benefit	Income tax	NIC ²	Net income ³	Adjusted income ⁴	Child benefit	Income tax	NIC ²	Net income ³	Percentage change in net income per cent
£	£	£	£	£	£	£	£	£	£	
80.00	14.50	0.31	5.60	88.59	86.00	14.50	0.47	6.02	94.01	6.1
90.00	14.50	2.81	6.30	95.39	96.75	14.50	3.15	6.77	101.33	6.2
100.00	14.50	5.31	7.00	102.19	107.50	14.50	5.84	7.52	108.64	6.3
120.00	14.50	10.31	10.80	113.39	129.00	14.50	11.22	11.61	120.67	6.4
140.00	14.50	15.31	12.60	126.59	150.50	14.50	16.59	13.54	134.87	6.5
160.00	14.50	20.31	14.40	139.79	172.00	14.50	21.97	15.48	149.05	6.6
180.00	14.50	25.31	16.20	152.99	193.50	14.50	27.34	17.41	163.25	6.7
200.00	14.50	30.31	18.00	166.19	215.00	14.50	32.72	19.35	177.43	6.8
250.00	14.50	42.81	22.50	199.19	268.75	14.50	46.15	24.18	212.92	6.9
300.00	14.50	55.31	27.00	232.19	322.50	14.50	59.59	29.02	248.39	7.0
305.00	14.50	56.56	27.45	235.49	327.88	14.50	60.94	29.25	252.19	7.1
325.00	14.50	61.56	27.45	250.49	349.38	14.50	66.31	29.25	268.32	7.1
350.00	14.50	67.81	27.45	269.24	376.25	14.50	73.03	29.25	288.47	7.1
400.00	14.50	80.31	27.45	306.74	430.00	14.50	86.47	29.25	328.78	7.2
500.00	14.50	112.83	27.45	374.22	537.50	14.50	121.63	29.25	401.12	7.2
600.00	14.50	152.83	27.45	434.22	645.00	14.50	164.63	29.25	465.62	7.2

¹ Calculations assume that only the husband has earned income.

² National Insurance Contributions are at the standard Class 1 rate for employees contracted-in to the State additional (earnings related) pension scheme.

³ Net income is earnings, less tax and National Insurance Contributions, plus child benefit. It does not include any income-related benefit.

⁴ The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 7½ per cent.

SECRET

8 3/4 per cent
Earnings Growth

TABLE 11

MARRIED COUPLE WITH TWO CHILDREN - INCOME ALL EARNED - WEEKLY FIGURES

COMPARISON OF INCOME AFTER INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 8 3/4 PER CENT

1988-89					1989-90					
Income ¹	Child Benefit	Income tax	NIC ²	Net income ³	Adjusted income ⁴	Child benefit	Income tax	NIC ²	Net income ³	Percentage change in net income per cent
£	£	£	£	£	£	£	£	£	£	
80.00	14.50	0.31	5.60	88.59	87.00	14.50	0.72	6.09	94.69	6.9
90.00	14.50	2.81	6.30	95.39	97.88	14.50	3.44	6.85	102.09	7.0
100.00	14.50	5.31	7.00	102.19	108.75	14.50	6.15	7.61	109.49	7.1
120.00	14.50	10.31	10.80	113.39	130.50	14.50	11.59	11.74	121.67	7.3
140.00	14.50	15.31	12.60	126.59	152.25	14.50	17.03	13.70	136.02	7.4
160.00	14.50	20.31	14.40	139.79	174.00	14.50	22.47	15.66	150.37	7.6
180.00	14.50	25.31	16.20	152.99	195.75	14.50	27.90	17.61	164.74	7.7
200.00	14.50	30.31	18.00	166.19	217.50	14.50	33.34	19.57	179.09	7.8
250.00	14.50	42.81	22.50	199.19	271.88	14.50	46.94	24.46	214.98	7.9
300.00	14.50	55.31	27.00	232.19	326.25	14.50	60.53	29.25	250.97	8.1
305.00	14.50	56.56	27.45	235.49	331.69	14.50	61.89	29.25	255.05	8.3
325.00	14.50	61.56	27.45	250.49	353.44	14.50	67.33	29.25	271.36	8.3
350.00	14.50	67.81	27.45	269.24	380.62	14.50	74.12	29.25	291.75	8.4
400.00	14.50	80.31	27.45	306.74	435.00	14.50	87.72	29.25	332.53	8.4
500.00	14.50	112.83	27.45	374.22	543.75	14.50	124.13	29.25	404.87	8.2
600.00	14.50	152.83	27.45	434.22	652.50	14.50	167.63	29.25	470.12	8.3

¹ Calculations assume that only the husband has earned income.

² National Insurance Contributions are at the standard Class 1 rate for employees contracted-in to the State additional (earnings related) pension scheme.

³ Net income is earnings, less tax and National Insurance Contributions, plus child benefit. It does not include any income-related benefit.

⁴ The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 8 3/4 per cent.

7½ per cent
Earnings Growth.

TABLE 12

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

COMPARISON OF INCOME AFTER TAX BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 7½ PER CENT

Weekly income in 1988-89		Charge in 1988-89			Adjusted weekly income in 1989-90 ¹		Proposed charge in 1989-90			
Husband	Wife	Joint	Income tax	Percentage of income taken in tax per cent	Husband	Wife	Joint	Income tax	Percentage of income taken in tax per cent	Percentage change in income after tax per cent
£	£	£	£		£	£	£	£		
100.00	50.00	150.00	5.31	3.5	107.50	53.75	161.25	5.89	3.7	7.4
	100.00	200.00	17.79	8.9		107.50	215.00	19.33	9.0	7.4
	150.00	250.00	30.29	12.1		161.25	268.75	32.76	12.2	7.4
	200.00	300.00	42.79	14.3		215.00	322.50	46.20	14.3	7.4
	300.00	400.00	67.79	16.9		322.50	430.00	73.08	17.0	7.4
150.00	50.00	200.00	17.81	8.9	161.25	53.75	215.00	19.33	9.0	7.4
	100.00	250.00	30.29	12.1		107.50	268.75	32.76	12.2	7.4
	150.00	300.00	42.79	14.3		161.25	322.50	46.20	14.3	7.4
	200.00	350.00	55.29	15.8		215.00	376.25	59.64	15.9	7.4
	300.00	450.00	80.29	17.8		322.50	483.75	86.51	17.9	7.4
200.00	50.00	250.00	30.31	12.1	215.00	53.75	268.75	32.76	12.2	7.4
	100.00	300.00	42.79	14.3		107.50	322.50	46.20	14.3	7.4
	150.00	350.00	55.29	15.8		161.25	376.25	59.64	15.9	7.4
	200.00	400.00	67.79	16.9		215.00	430.00	73.08	17.0	7.4
	300.00	500.00	92.79	18.6		322.50	537.50	100.21	18.6	7.4
300.00	50.00	350.00	55.31	15.8	322.50	53.75	376.25	59.64	15.9	7.4
	100.00	400.00	67.79	16.9		107.50	430.00	73.08	17.0	7.4
	150.00	450.00	80.29	17.8		161.25	483.75	86.51	17.9	7.4
	200.00	500.00	92.79	18.6		215.00	537.50	100.21	18.6	7.4
	300.00	600.00	124.95 ²	20.8		322.50	645.00	134.47 ²	20.8	7.5
400.00	50.00	450.00	80.31	17.8	430.00	53.75	483.75	86.51	17.9	7.5
	100.00	500.00	92.79	18.6		107.50	537.50	100.21	18.6	7.4
	150.00	550.00	112.45 ²	20.4		161.25	591.25	121.03 ²	20.5	7.5
	200.00	600.00	124.95 ²	20.8		215.00	645.00	134.47 ²	20.8	7.5
	300.00	700.00	149.95 ²	21.4		322.50	752.50	161.35 ²	21.4	7.5

¹ The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 7½ per cent.

² Denotes wife's earnings election beneficial.

SECRET

*8 3/4 per cent
Earnings Growth.*

TABLE 12

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

COMPARISON OF INCOME AFTER TAX BETWEEN 1988-89 AND 1989-90 WHERE EARNINGS INCREASE BY 8 3/4 PER CENT

Weekly income in 1988-89		Charge in 1988 89			Adjusted weekly income in 1989-90 ¹		Proposed charge in 1989-90			
Husband	Wife	Joint	Income tax	Percentage of income taken in tax per cent	Husband	Wife	Joint	Income tax	Percentage of income taken in tax per cent	Percentage change in income after tax per cent
£	£	£	£		£	£	£	£		
100.00	50.00	150.00	5.31	3.5	108.75	54.38	163.13	6.36	3.9	8.3
	100.00	200.00	17.79	8.9		108.75	217.50	19.95	9.2	8.4
	150.00	250.00	30.29	12.1		163.12	271.87	33.54	12.3	8.5
	200.00	300.00	42.79	14.3		217.50	326.25	47.14	14.4	8.5
	300.00	400.00	67.79	16.9		326.25	435.00	74.33	17.1	8.6
150.00	50.00	200.00	17.81	8.9	163.12	54.38	217.50	19.95	9.2	8.4
	100.00	250.00	30.29	12.1		108.75	271.87	33.54	12.3	8.5
	150.00	300.00	42.79	14.3		163.12	326.24	47.14	14.4	8.5
	200.00	350.00	55.29	15.8		217.50	380.62	60.73	16.0	8.5
	300.00	450.00	80.29	17.8		326.25	489.37	87.92	18.0	8.6
200.00	50.00	250.00	30.31	12.1	217.50	54.38	271.88	33.55	12.3	8.5
	100.00	300.00	42.79	14.3		108.75	326.25	47.14	14.4	8.5
	150.00	350.00	55.29	15.8		163.12	380.62	60.73	16.0	8.5
	200.00	400.00	67.79	16.9		217.50	435.00	74.33	17.1	8.6
	300.00	500.00	92.79	18.6		326.25	543.75	102.71	18.9	8.3
300.00	50.00	350.00	55.31	15.8	326.25	54.38	380.63	60.73	16.0	8.6
	100.00	400.00	67.79	16.9		108.75	435.00	74.33	17.1	8.6
	150.00	450.00	80.29	17.8		163.12	489.37	87.92	18.0	8.6
	200.00	500.00	92.79	18.6		217.50	543.75	102.71	18.9	8.3
	300.00	600.00	124.95 ²	20.8		326.25	652.50	136.35 ²	20.9	8.7
400.00	50.00	450.00	80.31	17.8	435.00	54.38	489.38	87.92	18.0	8.6
	100.00	500.00	92.79	18.6		108.75	543.75	102.71	18.9	8.3
	150.00	550.00	112.45 ²	20.4		163.12	598.12	122.75 ²	20.5	8.6
	200.00	600.00	124.95 ²	20.8		217.50	652.50	136.35 ²	20.9	8.7
	300.00	700.00	149.95 ²	21.4		326.25	761.25	163.53 ²	21.5	8.7

¹ The adjusted incomes shown for 1989-90 are for illustration. They have been obtained by increasing the corresponding incomes in 1988-89 by 8 3/4 per cent.

² Denotes wife's earnings election beneficial.



FROM: J M G TAYLOR

DATE: 13 February 1989

PS/FINANCIAL SECRETARY

pmf

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Byatt
Mr Scholar
Mr Culpin
Mr Gilhooly
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Jenkins - OPC

Mr Isaac - IR
Mr McGivern - IR
Mr Elliott - IR
PS/IR

STARTER 217: TAX RELIEF FOR RESIDENTIAL LANDLORDS - "RENT A ROOM"

The Chancellor was grateful for the Financial Secretary's note of 10 February. He was also grateful for Mr Tyrie's note of the same date, Mrs Chaplin's of 9 February, and Mr McGivern's of 8 February.

2. He has concluded that, as Mr Tyrie says, the weight of evidence strongly suggests that this concession is not worth the candle. This starter should, therefore, now be dropped, and the officials concerned can devote themselves to ESOPs (and unincorporated companies).

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

J M G TAYLOR

BUDGET CONFIDENTIAL



FROM: MALCOLM BUCKLER
DATE: 13 February 1989

mpg

MR ANNYS - INLAND REVENUE

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Mr Monck
Mr Burgner
Mr Burr
Mr Culpin
Mr Gilhooly
Ms Young
PS/Inland Revenue

PRP: HEADQUARTERS CONCESSION (STARTER No 116)

The Paymaster General was grateful for your submission of 9 February. He is content for you to instruct Parliamentary Counsel as outlined in paragraph 3 of your minute so as to avoid the problems of mutual deductibility where two or more "headquarters" schemes are based on the same profit and loss account.

MALCOLM BUCKLER
Private Secretary



FROM: R C M SATCHWELL
DATE: 13 February 1989

MR MASSINGALE - IR

cc

PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Scholar
Mr Culpin
Mr Kelly
Mr Gilhooly
Mr Painting
Miss HAY
Mrs Chaplin
Mr Tyrie
Mr Bowman - OPC

STARTER 107: REFORM OF RELIEFS FOR RELOCATION COSTS

PS/IR

The Financial Secretary was grateful for your minute of 8 February. He thinks that capital losses on the disposal of the old property should be excluded from the scope of the new statutory provision for removals expenses; but that there should be transitional relief for employees who had entered into a commitment to move before 6 April 1989 and who had started a job in the new location by 1 July 1989. An announcement to this effect should be made at the same time and in the same way as that for the withdrawal of the housing costs concession.

R C M SATCHWELL
Private Secretary



FROM: J M G TAYLOR

DATE: 13 February 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Scholar
Mr Gilhooly
Mr de Berker
Miss Hay
Mr Knight
Mr Ramsden
Mrs Chaplin
Mr Tyrie
Mr Jenkins - OPC

Mr Lewis - IR
Mr Fraser - IR
Mr Wilcox - IR
PS/IR

STARTER 110: TAX TREATMENT OF LUMP SUM TERMINATION PAYMENTS TO EMPLOYEES

The Chancellor has seen the Financial Secretary's note of 10 February. He agrees with the Financial Secretary's conclusion that we should drop "Option 3". He also agrees that we should work up the idea of withdrawal of relief based on a threshold combining the lump sum and pay over the previous 12 months as a starter for next year's Bill.

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

J M G TAYLOR



FROM: J M G TAYLOR

DATE: 13 February 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Byatt
Mr Scholar
Mr Culpin
Mr Gilhooly
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Jenkins - OPC

Mr Isaac - IR
Mr McGivern - IR
Mr Elliott - IR
PS/IR

STARTER 217: TAX RELIEF FOR RESIDENTIAL LANDLORDS - "RENT A ROOM"

The Chancellor was grateful for the Financial Secretary's note of 10 February. He was also grateful for Mr Tyrie's note of the same date, Mrs Chaplin's of 9 February, and Mr McGivern's of 8 February.

2. He has concluded that, as Mr Tyrie says, the weight of evidence strongly suggests that this concession is not worth the candle. This starter should, therefore, now be dropped, and the officials concerned can devote themselves to ESOPs (and unincorporated companies).

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

J M G TAYLOR



FROM: FINANCIAL SECRETARY
DATE: 15 February 1989

CHANCELLOR 2

cc Chief Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Gilhooly
Mr Ilett
Mr MacPherson
Mr Neilson
Mrs Chaplin
Mr Tyrie

Mr Kuczys) IR
Mr Walker)
PS/IR

*Compromiser on 75%; Agree for? 2/15/2
Munster OK.*

STARTER 152: PEPs

I have discussed Mr Walker's minute of 6 February with officials.

I would be inclined to have an 80% minimum figure for the value within a PEP of a unit or investment trust's investments in U.K. equities, rather than the 70% proposed by the Revenue. (This is the figure they currently use as the minimum for justifying investment trusts' commitment to invest "wholly or mainly" in shares or securities.) 70% seems too generous, particularly for unit trusts.

On the other issues raised, I agree that there should be a 12-month grace period for plan managers to comply with the rule; and that compliance should be by way of an annual certificate signed by a qualified independent auditor.

R.C.M.S.
PP NORMAN LAMONT



FROM: FINANCIAL SECRETARY

DATE: 15 February 1989

CHANCELLOR

cc

PS/Chancellor
 PS/Chief Secretary
 PS/Economic Secretary
 PS/Paymaster General
 Mr Scholar
 Mr Culpin
 Mr Michie
 Mrs Chaplin
 Mr Corlett - IR
 Mr Stewart - IR
 PS/IR

CHARITIES - COVENANTED MEMBERSHIP SUBSCRIPTIONS (STARTER 151)

X I have discussed Mr Stewart's note of 27 January with the Revenue.

2. I agree that we should go ahead with this legislation, which will resolve the current problems with the National Trust and other similar charities which gave members free entry to their properties. These charities should welcome the proposal. It does involve drawing a slightly awkward dividing-line between charities concerned with preservation (the heritage, museums and wildlife conservation) and other charities such as arts bodies which might wish to give covenanting members benefits of other kinds, for example discounts on tickets for concert or opera performances. We may face some representations from these other charities. But I think the distinction can be drawn. Benefits such as discounts on tickets for performances are more tangible (and valuable) than free entry to a historic house or museum which the charity is aiming to preserve permanently for the public benefit. We will however have to watch the presentation of the proposal carefully.

3. I also agree that it would be useful to show a draft Clause to the National Trust in advance, on a strictly confidential basis. This should ensure that any further detailed points they may raise can be ironed out before we go public.

NORMAN LAMONT



FROM: R C M SATCHWELL
DATE: 15 February 1989

MR JAUNDOO - IR

cc PS/Chancellor
Mr Culpin
Mr Pitts - IR
PS/IR

STARTER 259: IHT THRESHOLD AND RATE

The Financial Secretary was grateful for your minute of 2 February, which he has discussed with the Chancellor. This minute confirms their decision to go for Option 1 of your minute (i.e. bare indexation of the threshold and no change in the rate), which was announced at last Monday's Overview meeting.

R.C.M.S.

R C M SATCHWELL
Private Secretary



FROM: J M G TAYLOR

DATE: 16 February 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Odling-Smee
Mr Gilhooly
Mr Ilett
Mr Macpherson
Mr Neilson
Mrs Chaplin
Mr Tyrie

Mr Kuczys - IR
Mr Walker - IR
PS/IR

STARTER 152: PEPs

The Chancellor was grateful for the Financial Secretary's note of 15 February.

2. He has decided on a compromise of a 75 per cent minimum figure for the value within a PEP of a unit or investment trust's investments in UK equities. He is otherwise content with the Financial Secretary's conclusions.

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

J M G TAYLOR



FROM: S J McMANUS

DATE: 16 FEBRUARY 1989

1. MR ROGERS
2. CHANCELLOR

McManus 16/2

Shepherd

**MR RICHARD SHEPHERD'S PROTECTION OF OFFICIAL INFORMATION BILL:
STARTERS 63 AND 452**

1. Mr Allan's minute of 14 February 1989 to Mr Bush asked for a brief note on the proposal in Mr Richard Shepherd's Protection of Official Information Bill which provided for legal sanctions against the unauthorised disclosure of personal information.

2. The main purpose of Mr Shepherd's Bill was, of course, to replace Section 2 of the Official Secrets Act 1911 with less restrictive provisions which, while protecting certain Government information from unauthorised disclosure (eg defence

Financial Secretary
Economic Secretary
Sir P Middleton
Mr C D Butler
Mr Culpin
Mr G C Allan

Mr Sutherland (OPC)

PS/C&E

Sir A Battishill
Mr Isaac
Mr Painter
Mr Rogers
Mr Beighton
Mr Miller
Mr Bush
Mr Jones
Mr McManus
Mr Hutton
Mr Gledhill
Mr Shaw (CD)
PS/IR

and security information), would have required Government Departments to publish more information and report annually to Parliament on measures introduced to increase public access to information within their control.

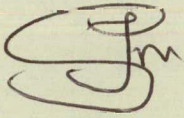
3. Mr Shepherd's Bill was defeated on a vote at the end of Second Reading on 15 January 1988.

4. As far as unauthorised disclosure is concerned, the Bill would have made it an offence for a civil servant to disclose any "protected information" which he held by virtue of his position. And "protected information" was defined so as to include any information supplied in confidence under a statutory requirement, such as information provided by taxpayers. The penalties for unauthorised disclosure were to be up to 2 years imprisonment or a fine, or both on conviction on indictment or, on summary conviction, up to 6 months imprisonment or a fine or both (the same as under Starters 63 and 452).

5. The Bill did, however, provide a defence for disclosure in the public interest if the person charged could show that he had reason to believe that the information indicated the existence of crime, fraud or other misconduct and provided, in the case of a civil servant, that he had taken reasonable steps to comply with established procedures for drawing such misconduct to the attention of the appropriate authorities without effect.

6. As you know, we are not proposing a similar defence in Starters 63 and 452. It will be a defence for a person to prove that he believed that he had lawful authority to make the disclosure in question (and no reasonable cause to believe otherwise) or that the information was already in the public domain. But apart from that our general approach has been that there can be no excuse for unauthorised disclosure of private information about taxpayers. We are looking back through the debate on Mr Shepherd's Bill to see if the question of a public

interest defence was raised in relation to disclosure of private information, and whether any defensive briefing might be necessary in connection with Starters 63 and 452.

A handwritten signature in black ink, appearing to be 'S J McManus'. The letters are stylized and cursive.

S J McMANUS

M
CONFIDENTIAL



Inland Revenue

Personal Tax Division
Somerset House

FROM: R MASSINGALE
EXT: 6303
DATE: 17 FEBRUARY 1989

FINANCIAL SECRETARY

BUDGET STARTER 103: SECURITY COSTS

1. As you know, at a meeting on 8 February, the Chancellor decided that there should be included in this year's Finance Bill a benefits-in-kind exemption when employers provide security expenditure for directors and "higher paid" employees. He asked that you should consider the detailed issues still to be settled.

Background

2. The background was considered by an inter-departmental working party chaired by Peter Lewis which was set up to look at this problem at the request of Sir Peter Middleton. A copy of the report of the working party is attached. (You will see that it considers alternatives to the legislative route now decided upon.)

cc Chancellor
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Jenkins (OPC)

Chairman
Mr Isaac
Mr Painter
Mr Lewis
Mr McGivern
Mr Elliott
Mr O'Brien
Mr Massingale
PS/IR

Broad aim of legislation

3. The general approach to an exemption is described in paragraphs 29 to 45, and an outline of a possible relief is given in the Annex.

4. The approach of the working party was that an exemption scope should be limited and that as far as possible any new relief should be focused on a very narrow class of employees whose personal security was threatened by virtue of the work they carried on. In particular, the assumption was that there should be as little leakage of relief as possible to, in particular, wealthy individuals who might be tempted to use a tax break to subsidise expenditure on protecting themselves and their property against "normal" criminal threat. Unless the relief were tightly drawn, there could be substantial Exchequer and administrative costs.

5. We have suggested that the new provision should be drawn tightly by limiting and particularising the possible body of claimants. We have therefore given provisional instructions to Counsel requiring that any claimant must demonstrate:-

- That he faces a "special threat" (this aligns with the current benefit in kind exemption for provided accommodation where this is part of special security arrangements. It will indicate that a normal level of threat will be insufficient).
- That the threat must be to his personal security; (this as opposed to a threat to property).
- That the threat emanates wholly or mainly from the particular employment (this will allow us broadly to limit relief to those where the prime cause of any threat was the circumstances of their employment rather than their personal circumstances).

6. The proposal is that relief should be available only where the employer pays for the "security" (or where payment is by someone else where it would be chargeable as a benefit in kind). It is not proposed that expenditure by individuals on their own security should qualify for relief.

7. Further limitations are proposed by reference to the expenditure itself:-

- That the motive of the payer in making it should be solely to enhance the security of the employee (as far as possible we wish to exclude any case where there is an intention of "bounty" in the payment).
- That the main purpose and use of the facilities or assets provided by virtue of the expenditure is the enhancement of personal security (we will concede incidental use but again as far as possible we wish to limit and focus relief on expenditure incurred directly in relation to improving personal security).

8. We envisage that the sorts of expenditure which would in future be exempted from a benefit charge would be assets where the main purpose is to enhance personal security, such as video cameras, floodlighting and the like. Where any assets or facilities have a dual purpose, any additional expenditure incurred on them in respect of a security element should be exempted. Further, where serviceable "non-security" assets are replaced by equivalent assets which have a security element the amount of the exemption should be increased by the value of the asset replaced. (These propositions are exemplified in the notes to the annex of the working party report.)

9. In addition to assets provided in relation to security certain expenditure not of a "capital" nature would also be exempt. Examples are the cost of security guards and running and maintenance costs of security equipment.

Possible exclusion of close company directors

10. For those who will be able to qualify for the new relief it will provide a substantial tax break. High level security provision is becoming more and more the norm for high worth individuals. The possibility of having such expenditure provided by the employer tax free under cover of the new exemption will be an attractive proposition.

11. Notwithstanding the tight drafting which we hope to achieve, there will clearly be a risk of leakage of relief where the claimant is in a position to control the action of his employer (normally directors of close companies where the corporate veil between employer and employer is necessarily thin). In such cases the natural check of prudent arms length action by the employer in relation to his employees, is not present. We envisage that in some cases plausible arguments will be put forward justifying relief which it would be difficult for Inspectors of Taxes to rebut.

12. The question is, therefore, whether the new provision should exclude the possibility of close company directors obtaining relief because they are in a position to control, or at least influence, expenditure on their own behalf in a way which is not open to people in the ordinary employer/employee relationship.

13. One argument in favour of such an exclusion is that there is already a precedent in the benefits in kind field for excluding close company directors from an exemption to the charge. The exemption from the charge to tax on employer provided accommodation is not available to directors unless they have no material interest in the company.

14. As a further consideration it is perhaps less likely that the great majority of close companies, typically small and domestic, would be involved in the sorts of activity where the type of security threat we have in mind would arise.

15. The arguments are, however, far from one sided. Some small businesses will be doing sensitive work overseas which could lead the proprietors into the sorts of security threat with which large international companies have become concerned. The small and domestic business distinction does not help in the Northern Ireland situation where some of the building contractors being given protection at the public expense might well be close companies. (There are other circumstances where pressure points might arise eg furriers threatened by animal rights campaigners and estate agents selling properties in Wales to non-Welshmen.)

16. Another important consideration is that, if we are right in thinking that this kind of expenditure has not generally been regarded as within the benefits field, then a specific exclusion of close company directors (it would have to appear on the face of the legislation) is likely to be regarded as the equivalent of a new charge to tax for them. That would not be helpful in the general presentation of this measure which should, as far as at all reasonably possible, be to "frank" the existing position. A relief which appeared "grudging" might make the whole provision considerably more contentious than it would otherwise be.

A possible extension of relief to the self-employed

17. If you decided that close company directors should, in principle, be capable of obtaining relief from the benefits in kind charge it would be for consideration whether the new provision should be extended to the self-employed.

18. At present where a trader or professional man incurs expenditure on security at his workplace that would generally qualify for relief from tax either as a revenue deduction in arriving at profits or through capital allowances if the expenditure related to plant and machinery eg video cameras etc. However, structural alterations to premises in relation to security would not generally qualify.

19. Where a self-employed person incurred expenditure on security equipment at his home then in most circumstances there would be no relief since the protection of the trader's person and private property would give a duality of purpose which would prevent relief. (Though some modest proportion of relief might be granted where the trader or professional man worked from home.)

20. Where expenditure on security equipment etc for a self-employed trader was incurred by someone other than the trader himself (eg from Government resources in the Northern Ireland situation) it is unlikely that there would be any charge to tax because the benefit to the recipient deriving from expenditure would not be capable of being converted into money.

21. The main considerations on relief for the self-employed are the same as for close company directors. And the case for such an extension has been brought into focus by the recent murder of the Northern Ireland solicitor Mr Patrick Finucane and the threats against Salman Rushdie the author (both of whom would, of course, fall into the self-employed category).

22. On the other hand, we have seen no representations on behalf of the self-employed that there should be such a relief (this in contrast with the position in relation to employed taxpayers) and it might be possible to "ring fence" any new relief as relating solely to a problem within the Schedule E benefits field. There are, indeed, other important exemptions from Schedule E benefits charges which have no parallel in the Schedule D field; examples are provided accommodation and car parking. These differences have created no particular pressures in practice.

23. A further consideration is that if there were to be legislation to give relief to the self-employed in relation to their own houses, the dividing line between them and

others, and in particular employees who have incurred security expenditure on their homes at their own expense - perhaps on the advice of the security forces as certainly happens in the public sector - would be that much more difficult to defend.

24. Legislation to cover the self-employed would necessarily be more complex than for employees and directors since it would not only have to provide an allowable revenue deduction but to categorise certain capital expenditure which could qualify for capital allowances.

Treatment of past years

25. As mentioned in paragraph 16 above, there may well have been a significant number of cases where security costs have been incurred by employers in the past but have not been brought into the charge to tax. In many instances this is probably because of a genuine misapprehension as to the fact that a taxable benefit arose. The proposal is, therefore, that back years should be handled in a similar manner to "car parking" when it was exempted in last year's Bill.

26. In relation to that relief, Treasury Ministers authorised the Revenue - by way of a new, but temporary, ESC - not to pursue any tax liabilities with employees or employers in respect of the benefit for years up to and including 1987/88 which were unsettled at Budget day 1988. Similarly, liability was not pursued where no action had been taken by Budget day to collect tax due from an employee in respect of a car parking space for years up to and including 1987/88. However, no repayment was made where tax had been or was being paid in accordance with the law in force for those earlier years.

27. In this case the reference point would be the date of the publication of the 1989 Bill [13 April]. Any liabilities in relation to benefits arising from "allowable security costs" would not be pursued from that time for years up to

1988/89. Equally, any tax properly paid or being paid would not be repaid. This treatment would be announced in a Revenue press release on the date of publication of the Bill.

Handling of the announcement of security costs exemption

28. The Chancellor has indicated that the proposed legislation should receive a "very low profile". It will not require a separate Budget resolution and we assume that there will be no mention in the Budget speech.

29. If you agree, there will be no mention in the FSBR, nor in Budget Briefing.

30. On that basis we would have no Budget Day press release - the first indication of the relief would be a short release with the Finance Bill publication day releases.

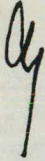
31. Alternatively, if you thought it would be easier to lose this proposal among the many other Budget Day announcements, we could announce it then - with a mention in the FSBR. But we would expect a Finance Bill publication announcement to attract less attention.

Points for decision

32. We would be grateful for your views on the following matters so that drafting can go ahead on a firm basis:-

- Are you content with the general approach proposed to restrict the possible body of claimants?
- Similarly are you content with the proposals on the expenditure which may qualify for relief?
- Should close company directors be included or excluded?

- If close company directors are included, should relief be extended to the self-employed on a broadly matching basis?
- Do you agree that tax liabilities in relation to security expenditure incurred in years up to and including 1988/89 should not be pursued?
- Do you agree that there should be no mention on Budget Day, and an announcement in a Finance Bill publication day Press Release?



R MASSINGALE

**Inland Revenue**Personal Tax Division
Somerset HouseFROM: P LEWIS
EXT: 6371
DATE: 20 JANUARY 1989

BENEFITS IN KIND: SECURITY COSTS

1. At his meeting on 22 November Sir P Middleton asked me to chair a small working group to examine the options for legislation and grossing up. The working group consisted of representatives from Treasury (Pay), Home Office, Northern Ireland Office, and the Police, as well as members of Personal Tax Division. This report has been agreed with the other Departments represented.

General approach

2. If the tax position of security costs is to be put on a proper footing from the beginning of the next tax year, there is not much time for putting new arrangements in place, whether through Finance Bill legislation, or a new system of "grossing up". We accordingly decided to go for a fairly quick and short report which does not attempt to go into every detail of the background, or attempt to elaborate every consideration. We hope, however, that the background and discussion are sufficiently full to enable a view to be taken on the best way forward.

3. The report is divided into the following sections

- factual background
- grossing up

- compounding/composite rate
- legislation
- summary

FACTUAL BACKGROUND

4. Information provided by the Northern Ireland Office and the Home Office make it clear that expenditure on security

- affects large numbers of people
- involves people at all income levels
- entails greatly varying amounts of expenditure in individual cases, at the top going into 6 figures
- involves in total a significant amount of public expenditure.

5. One point to emerge fairly early on was that, given the great diversity of expenditure, it would not always be self-evident whether or not there was a taxable benefit. For example, special travel arrangements relating to official journeys would normally not be liable to tax. Protective clothing would normally be exempt. And while specially protected vehicles are used for private journeys, they are rotated very frequently which in some cases might bring them within the special exemption for "pool" cars.

(a) Northern Ireland

6. There are several broad categories in which security arrangements are in force.

7. Under the VIP scheme special protection is given to about 650 mainly prominent people who are thought to be at special risk. In addition to Ministers and Civil Servants, there are

judges and lawyers. Average capital cost per case is about £18,000. It can go much higher, for example over £100,000 has been spent on one judge's house who also has a protected vehicle and round the clock security guards. Average maintenance costs (electricity, telephone, alarms and other maintenance) are approaching £2,000 per annum.

8. About 50 people are escorted by the RUC VIP pool, at a cost of about £50,000 per annum each. Almost 20 people have static guards - 24 hour cover requires 5 men at a total cost of about £125,000.

9. In very broad terms, therefore, the annual running cost of the VIP scheme is about £6m per annum, with capital costs of about £18m incurred over a period.

10. A "List B" scheme is being brought into operation which aims to provide protection for working level officials whose duties may make them especially vulnerable to attack. This scheme allows expenditure of up to £1,000 over and above the amount a prudent householder would have spent on his own security.

11. Special transport and housing facilities are made available for the new "anti-racketeering" unit.

12. Prison officers and the RUC also get special protection. In the case of the RUC property security may be included, but more frequently officers move to a more secure area.

13. Security arrangements are in force for a small number of building contractors working on Government building projects - like police stations - subject to special threat. (This is another area where the technical tax position is unclear since there is no direct employer/employee relationship between Government and contractor. But if benefits come to a contractor because he is a director or employee of a building firm, they may nevertheless be taxable).

(b) Great Britain

14. On the basis of "threat assessments" provided by the Metropolitan Police Special Branch and other security agencies, a range of physical security measures may be installed at the homes of Ministers and senior officials. In some cases these measures alone may be judged sufficient; in other instances Ministers and officials may additionally receive armed police protection, and protected cars may also sometimes be provided. The position varies from Department to Department because each Accounting Officer is responsible for deciding what measures should be taken, acting on police advice. In one case capital costs of up to £170,000 are likely to be involved; but £10,000 would be a more common figure.

15. The capital cost of physical protection measures at the homes of Ministers and other VIPs is running at about £0.5 million per annum. This figure does not include considerable spending at official residences such as Downing Street, Chequers, Dorney Wood and Chevening. Information about maintenance/running costs is not readily available, but is thought, as in the case of Northern Ireland, to be quite high in relation to capital expenditure.

16. In cases where there is a low level of threat officials may be advised to take security measures at their own expense.

(c) Position when threat ends

17. In the public sector the general position is that when the threat to security ends the person concerned may either continue to use the special equipment involved - but now paying the running costs himself - or have it taken away. In general it is removed because it is regarded as too sophisticated/troublesome/expensive for normal use. It may not be practical or worthwhile to remove some items which have become part of the structure of the building (eg specially made bullet proof windows) but reusable equipment such as video cameras would be removed.

(d) Private sector

18. Since the police are not generally involved in private sector security arrangements, we have not been able to throw much further light on arrangements in the private sector. In Northern Ireland a high level of security is provided for senior business people. It is not clear how far down the management chain that normally goes.

(e) Overall Cost and Numbers

19. This information suggests that expenditure broadly of the order of £10m per annum might be taxable in the public sector in the areas considered - allowing for the fact that capital expenditure is chargeable at 20% per annum. But this quick survey does not cover the whole field - in particular the armed services and security services. On the other hand, a great variety of expenditure is included within the total, and not all of it would be liable to tax.

20. The number of taxpayers involved might be about 1,000 (again excluding armed forces etc). This also assumes that, using the normal Revenue administrative tolerances, we would not in practice be seeking tax on the smallest cases, for example the "List B" cases (paragraph 10) where there is a £1,000 limit on the capital expenditure which can be incurred.

GROSSING UP

21. Treasury's view is that "grossing up" would be technically possible for dealing with security benefits-in-kind. The detailed system worked out for handling the "grossing up" of detached duty payments (DDP) and boarding school allowances (BSA) could be applied to make sure that individuals were not worse off as a result of the tax charge.

22. But for a number of reasons, "grossing up" would be more complex than for DDP and BSA.

- First, DDP and BSA are fixed cash amounts which are wholly liable to tax. In contrast, security benefits come in a wide variety of forms and may not always be taxable or taxable in full (see paragraph 5 above). It might not always be clear what amount should be brought into account for "grossing up" purposes.
- "Grossing up" would have to work more in arrear than it does for DDP and BSA because those amounts are generally known during the year, whereas security benefits would only be quantified when the employing department completed P11Ds at the end of the tax year.
- At present "grossing up" only applies to the Civil Service and the Armed Forces. In this case it looks as though it might have to go wider to the prison service and the police authorities, for example, who may have no experience of "grossing up".
- "Grossing up" for DDP and BSA applies to about 2,800 officials and costs about £6m-£7m (1985 figures - latest easily available). For security benefits there might be 1,500 officials concerned (allowing 500 for the armed forces etc) and a cost of over £7m (assuming net chargeable expenditure of £10m, a universal marginal tax rate of 40% and allowing for employer's NIC).

23. Because of the scale and awkwardness of the "grossing up" approach the usual objections to it would come into greater prominence

- the "bureaucratic nonsense" argument of funds passing from one Government Department to another, under a complex procedure
- the apparent unfairness of the Government effectively waiving liabilities for its own servants which apply in the private sector (though in practice most private sector employers would probably, in one way or another, also "gross up")

- the unfortunate impression it would give to Departments who would see their budgets being squeezed to pay tax on something which (unlike DDP and BSA) they will not regard as a benefit comparable to pay to the officials concerned. (Any explicit recognition of the extra costs in Departmental votes would reinforce the "circularity of funds" objection to "grossing up").

24. A more general difficulty with "grossing up" is that it does not address the private sector aspect of the problem at all. It is not in principle a very satisfactory argument to say that the private sector does - or should - gross up as well. In some cases "grossing up" will involve private sector employers in large amounts of extra tax and NIC, and they may see their own position, where grossing up is a real cost to the employer, as quite different from that of the Government where the extra expenditure is balanced by extra tax and NIC receipts. Moreover, private sector employers may well see security benefits as in a quite different category from those benefits which are deliberately given as "perks" to form part of a remuneration package. They may object in principle to having to pay tax on security provisions. This is the more likely to happen to the extent that security arrangements have not previously been recognised as giving rise to benefits-in-kind, since we would have to draw attention to the need for employers and employees to return them at the same time as the public sector was put on a proper footing with "grossing up". In short, "grossing up" might solve the problem in the public sector - at a cost - only to precipitate it in the private sector.

COMPOUNDING/COMPOSITE RATE

25. Since "grossing up" would involve large numbers of individual calculations, and would involve the provision to tax

offices of information about security arrangements in force, an alternative approach suggested by the Treasury is a compounding or composite rate arrangement. *

26. In outline, the idea would be that the Revenue would accept from each employer in the public sector a lump sum in respect of the tax due on security benefits in kind. On the basis of a sample, it would be decided what proportion of the total expenditure was liable to tax, and the average rate of tax at which it would be chargeable.

27. This approach has a number of disadvantages

- First, it would almost certainly require legislation (like the composite rate scheme for banks and building societies) since there would be no certainty of collecting the correct amount of tax in aggregate, unless the whole of security expenditure was regarded as chargeable and it was charged at the highest possible rate (40% for income tax).
- Second, it leaves the tax and NIC records of individual officials in an incomplete state. It would, for example, be difficult to take the tax paid in respect of benefits and the "grossing up" into account if someone became entitled to a tax repayment (this point is covered by the statutory schemes for banks and building

* The Northern Ireland police have said they would be "gravely concerned" if the circle of those currently familiar with the arrangements were in any way extended. But in practice, in the public sector, it seems unlikely that details of the arrangements would have to be divulged, though the individuals concerned might have to be identified. With "grossing up" it would be a question of the Departmental pay section being authorised to make extra payments, and the tax office would simply need to know that there was a chargeable benefit of a particular amount. With a tax relief, it would be possible to dispense with the detailed P11D returns from Departments in respect of each individual which would otherwise be required if the Inspector could be satisfied that the circumstances in which the Department incurred security expenditure were such that relief would always be due in respect of it.

societies which provide that the composite rate tax is not repayable to the individual taxpayer - in any circumstances). Similarly, for people below the UEL, NIC paid on their behalf by their Departments could not be credited to their contribution records.

- It would not be possible to limit this kind of arrangement to the public sector; it would have to be made available to private sector employers as well.
- If "rough and ready" accounting of this kind were acceptable for security benefits, there would be pressure to extend it more widely.

28. It was for reasons of this kind that this approach was ruled out by Ministers for DDP and BSA.

TAX RELIEF

29. In principle, a tax exemption is the right solution to this problem because

- on merits, few people would wish to argue that expenditure to protect the lives of employees, or to save them from injury, should be regarded as a taxable benefit, in the same class as, for example, the company car
- a change in the law would apply equally to the private and public sectors.

30. Legislation entails some disadvantages

- it would mean another provision for Ministers to handle in the Finance Bill
- security can be a sensitive subject; and to the extent that in the private sector an exemption related mainly to property owned by wealthy people, it could also be contentious

- almost certainly some people would complain that any exemption was too narrowly drawn. As explained below, hitting the right target with a statutory exemption is one of the main difficulties. But if it could be targeted accurately, some people who have - we think - been enjoying a de facto exemption hitherto, may find themselves excluded

- a statutory exemption would raise the question of relief for people who carry out their own security improvements. As noted above, some people in the public sector who are subject to a low level of security threat are advised to have work done, but at their own expense. Although there are exceptions (this year's car parking exemption was one) tax reliefs relating to employment normally apply whether the employer or employee bears the cost

- to cover past years, legislation would either have to be retrospective; or we would need to be authorised to waive the collection of tax not already collected in respect of security benefits, after a specified date, by means of a new extra statutory concession which would need to be published.

The form of legislation

31. Legislation exempting employer provided security facilities would need to answer two main questions. Who should benefit, and what expenditure should be exempted?

Who should qualify?

32. Many people today feel some threat to their personal security so there is wide scope for employers - particularly in closely controlled companies - to provide security benefits essentially to meet ordinary personal security threats against which the directors would like some protection. Security provision in those circumstances is a personal benefit, and there is little case in principle for exempting it.

33. The existing security exemption for provided accommodation runs where there is a special threat to the employee's security and special security arrangements are in force and he resides in the accommodation as part of those arrangements. One possibility would be to try to import the concept of "special threat" into a new exemption.

34. But the meaning of "special threat" would not be clear. In conjunction with the other tests, it works for the accommodation relief reasonably well because there are very few cases in which people can be said to reside in particular accommodation for security reasons. The new relief, applying to people's own homes and everyday activities, would be much more open. In looking at the position of a company Chairman, for example, should the "special threat" be judged by reference to the position of ordinary people, or other company chairmen, or people in "at risk" public offices? The broad approach would have to be the same in the public and private sectors; it would be to compare the general run of employees doing broadly the same kind of job. In the case of company chairmen that would mean taking account of such factors as the nature of the business, its overseas connections, and size. The importance of any particular factor would vary from case to case. Although the concept is far from clearcut, some reference to "special threat" would be helpful to signal that the relief was not concerned with the ordinary everyday threats faced by everyone or wide classes of people.

35. One possibility previously raised was that those entitled to relief might be identified by some form of police certification to the effect that a named individual was at risk. Although this would be possible in the public sector - because the provision of personal security arrangements at the public expense would always follow an assessment of the risk by the security services - the police are not generally involved in the private sector.

36. The only alternative limitation we have been able to identify so far is that the relief should only run where the threat to the personal security of the employee (or office holder) arises by virtue of the employment or office. This is self-evidently the case in the public sector. In the private

sector, it should, in principle, cut out relief for someone who is simply wealthy, or wealthy and of a particular race or religion which makes him vulnerable to personal threats. It would be a matter for consideration how closely the link to employment was tied. For example, someone who was personally vulnerable, because of wealth and religion, but who also occupied a prominent position in a large concern, could plausibly argue that some of the threat to his security derived from his employment. But it would be possible - and in principle right, and consistent with the way the Schedule E rules normally work - to make that test work so that relief would only be due to meet threats which would apply to "each and every holder" of the office concerned. In that event, it would have to be shown that there was a threat inherent in the office, unrelated to the individual holder's race, religion or background. Although it seems right in principle to look primarily to the job itself as the source of the special threat, there will be cases where the personal circumstances/background of the holder add an extra dimension which ought to be recognised in assessing whether the threat is exceptional.

37. People engaged in criminal activities of a business nature may be exposed to special threats to their personal security. Expenditure on their security arrangements will no doubt often not be drawn to the attention of the Inland Revenue. But were a claim made where the threat arose from criminal business activity it should in principle be possible to reject it on the grounds that the criminal conduct was the source of the threat, and that it was not inherent in the particular employment or office held.

Amount of qualifying expenditure

38. If relief is given for personal security expenditure relating to a security threat deriving from the employment or office, there will be a temptation, in the private sector, for a wide range of expenditure on a property to be attributed to security needs. There are a number of separate factors.

39. First, expenditure on personal security and on property security are in practice often indistinguishable. So it would be difficult in practice to stop property security expenditure also qualifying for relief unless there is excluded some base expenditure relating to the normal expenditure a reasonably prudent person occupying the same property would have undertaken. But that is clearly a pretty imprecise concept; and could operate harshly for relatively low paid people whose job demands significant security expenditure.

40. Second, there is property improvement expenditure which may have some security value. For example, the roof might be strengthened and replaced to make entry through the roof space more difficult. Or the perimeter wall might be rebuilt, and possibly topped with a barbed wire or electric fence. In such cases a rule would be needed disallowing the expenditure altogether, or limiting it at most to the extra cost of providing the barbed wire or electric fence on top of the ordinary one. Without such a rule, a wide variety of maintenance and improvement expenditure could be classified as on account of security.

41. Third, since the security arrangements - even if entirely bona fida - will be incorporated in the employee's own home, should he be allowed to benefit from any enhanced value on account of them when he comes to sell? In some cases security expenditure may add little or nothing to the value of the property; but the more sophisticated security devices become commonplace in the homes of the wealthy, the more past expenditure on security is likely to be reflected in its current value. Any "claw back" provision aimed at taxing the enhancement value on sale looks administratively very unattractive because it means keeping track of cases over a long period of years, and, on the sale, an attribution of value to the security devices which would be likely to be very open to dispute.

42. The best way forward on these last two points might be to limit the allowable expenditure to expenditure which wholly relates to security (eg cameras, security floodlights etc) and

the extra cost of the security features where there was a dual purpose (eg special windows, doors, fences etc). If the allowable expenditure could be narrowed down in this way to the security element, then it would be easier to ignore any enhancement factor on eventual sale.

43. But this approach might lead to a residual need for some grossing up in the public sector. For example, where a property was being substantially modified on security grounds, the whole of the expenditure might not be attributable purely to security considerations. The Minister or official concerned could face a significant tax bill in respect of the "property improvement" element in such expenditure.

44. Expenditure other than on property presents less difficulty. If private - but specially protected - transport is provided, it should be taxable in accordance with the normal rules. So if it relates entirely to official or business journeys, there would be no tax charge. On the other hand, a special car available for private use should be charged in accordance with the normal car scales.

45. Very heavy expenditure can be incurred on security guards, particularly if provided on a "round the clock" basis. If they only provide security services, there should be no tax charge under a new exemption. That would, presumably, always be the case within the public sector; it might not always be the case in the private sector.

Outline of relief

46. The Annex outlines the main features of a possible tax relief along these lines. It assumes that relief would only be available where the employer incurs the expenditure.

SUMMARY/CONCLUSION

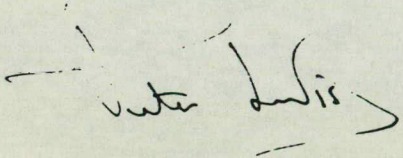
47. None of these options is easy.

48. The compounding/composite rate approach seems least attractive because it would require legislation, and yet it has all the hallmarks of a rough and ready administrative approach. It would for that reason be difficult to put into legislation, would be difficult to justify, and would be an unwelcome precedent. The reasons which led to it being discarded for DDP/BSA apply equally here.

49. "Grossing up" is technically feasible but undeniably awkward. It would be more troublesome than it is for DDP and BSA. It is a matter for judgement whether, if grossing up were introduced for the public sector, it would be possible to hold the line in the private sector, given the need for putting compliance on a sounder footing in this field, and the size of the tax bills involved in some cases.

50. A tax exemption is also technically possible. Without adequate safeguards, it could be very expensive. Introducing safeguards would make the legislation and its administration complex; and the best we have been able to identify so far could in some circumstances seem rather harsh, and in others allow the eventual realisation of substantial untaxed gains. To the extent that there is at present a broad de facto exemption, a new fairly closely targeted exemption would be regarded as a tightening up rather than a relaxation.

51. Much turns on the judgement of how the private sector would react to "grossing up" in the public sector. If the view is that the private sector would "come into line", Ministers may prefer the mainly "private" awkwardnesses of "grossing up" to the public problems of Finance Bill legislation. But if there is real doubt about holding the line in the private sector, then "grossing up" may effectively be regarded as a non-starter anyway.


P LEWIS

BROAD OUTLINE OF POSSIBLE BENEFITS-IN-KIND TAX EXEMPTION FOR SECURITY EXPENDITURE

1. Relief would apply
 - i. to expenditure incurred by the "employer" (1)
 - ii. [solely] for the purpose of meeting a [special/exceptional] threat to the personal security of the employee/office holder
 - iii. where that [special/exceptional] threat arises [wholly or mainly] by virtue of the particular employment or office held.

[Possible exclusion for controlling directors and directors who have a "material interest" in the company (where the decision to incur the expenditure will not be taken by an employer at arm's length from the employee benefiting from it). If relief extended to closely controlled company directors etc, treatment of self-employed would also need consideration.]

2. Expenditure qualifying for relief would be expenditure
 - i. on assets or facilities where the sole purpose and use was to provide personal security for the employee (and/or his family), or where any other purpose or use was incidental (2)
 - ii. where expenditure does not fall within paragraph 2(i), the extra cost of the provision of the asset or facilities on account of personal security considerations over and above the cost which would otherwise have been incurred on its provision (3)

iii. where expenditure falling within paragraph 2(ii) does not qualify for relief, but is on the replacement of assets or facilities which would not have been replaced but for personal security considerations, the amount of expenditure qualifying for relief would be increased to take account of the value of the asset replaced. (4)

3. The relief would need to cover both expenditure incurred by the employer on assets he continued to own, and on assets (in particular real property) owned (or coming to be owned) by the employee/office holder.

4. Various points of detail would need to be covered eg the situation where the protection given against the threat to the employee extends to his family.

5. Start date. Expenditure incurred after Budget Day. [ESC to cover the past.]

- (1) Definition would be expanded as necessary to include the relevant authority in the case of office holders and the exceptional cases where benefits were provided not by the employer, but by third parties. But relief would not apply where the employee incurred the expenditure himself.
- (2) An example might be expenditure on electric fencing or surveillance equipment on top of a perimeter wall.
- (3) An example here might be the perimeter wall itself. Since it serves the usual purpose of a boundary wall, no relief would be due if it were of a normal size and construction for the situation. But if it had special security features eg if it were built to 8' instead of 5', the extra cost would be allowable.
- (4) To continue the example, this would cover the case where an existing - and still servicable - 5' wall is demolished so that a new 8' wall can be constructed. In that event further relief would be available (as compared with footnote 3) to allow for the value of the existing wall which had to be destroyed to enable the new wall to be built.

BUDGET CONFIDENTIAL



FROM: J M G TAYLOR

DATE: 17 February 1989

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

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Scholar
Mr Culpin
Mr Michie
Mrs Chaplin

Mr Corlett - IR

Mr Stewart - IR

PS/IR

CHARITIES - COVENANTED MEMBERSHIP SUBSCRIPTIONS (STARTER 151)

The Chancellor has seen the Financial Secretary's note of 15 February.

2. He is content to go ahead with this legislation, and to show a draft Clause to the National Trust in advance, on a strictly confidential basis.

Handwritten initials, possibly 'JMGT', in the bottom right area of the page.

J M G TAYLOR



Phup

FROM: MISS S J FEEST
DATE: 20 February 1989

Mr C STEWART - IR

cc

PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Paymaster General
Mr Scholar
Mr Culpin
Mr Michie
Mrs Chaplin
Mr Corlett - IR
Mr Stewart - IR
PS/IR

CHARITIES - COVENANTED MEMBERSHIP SUBSCRIPTIONS (STARTER 151)

Further to our meeting on 14 February and the Financial Secretary's minute to Chancellor of 15 February and PS/Chancellor's reply of 17 February, I can confirm that the following decisions have been reached:-

- a. Legislation should be introduced in this year's Finance Bill as set out in paragraphs 3-10 of your minute of 27 January.
- b. The starting date should be Budget Day.
- c. The two National Trusts should be shown the draft Finance Bill clause in confidence.
- d. The legislation should also tidy up the position of the British Museum and National History Museum as stated in paragraph 19 and 20 of your minute of 27 January.

Susan Feest

SUSAN FEEST



FROM: J M G TAYLOR

DATE: 20 February 1989

PS/FINANCIAL SECRETARY

cc Mr Culpin
Mr Odling-Smee
Mr Bent
Mr Gieve
Mr Gilhooly
Mr M L Williams
Miss Hay
Mr Holgate
Mr Jenkins - OPC

Mr Painter - IR
Mrs Majer - IR
PS/IR

STARTER 455/114: EMPLOYEE SHARE OFFERS AND PRIVATISATION

The Chancellor has seen your note of 16 February to Mrs Majer.

2. He has suggested that it might be worth following up the timing point with a letter to Mr Parkinson. Perhaps Mr Holgate and Mrs Majer could provide a draft.

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

J M G TAYLOR



Inland Revenue

BUDGET CONFIDENTIAL

PWP

Compliance and
Collection Division
Somerset House

FROM: C D SULLIVAN

DATE: 21 FEBRUARY 1989

1. MR BEIGHTON

2. FINANCIAL SECRETARY

As Mr Sullivan says, we should like to continue to consider the detailed wording of the draft consultative document to see if further clarification or simplification of the text can be made.

JUB
21/

STARTER 451: SUBCONTRACTOR SCHEME: BUDGET PRESENTATION

1. I attach a draft of the consultative document on subcontractors to be issued on Budget Day or as soon after as is practicably possible. Further minor drafting and clarificatory amendments may be desirable. I also attach a copy of the draft Press Release and a draft Compliance Cost Assessment. This Release will, together with drafts of all the other Releases, also be sent to Ministers later this week.

2. The Finance Bill will extend existing regulation-making powers to allow regulations later this year, effective April 1990, on one of a range of options for reducing the number of vouchers by aggregation of small payments under one voucher. You have agreed to consultation on the possibilities for aggregation before regulations are made. And you have agreed to consultation before other efficiency scrutiny recommendations are implemented by regulations under existing powers on the same timetable. Accordingly, the first consultative phase will cover the items for secondary legislation this year. The next phase, in

- cc PS/Chancellor
 PS/Chief Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Mr Culpin
 Mr Gilhooly
 Miss Hay
 Mr Gieve
 Mrs Chaplin
 Mr Tyrie
 Mr Call

- Mr Beighton
 Mr Roberts
 Mr Muir
 Miss James
 Mr Dunbar
 Ms McFarlane
 PS/IR
 Mr Sullivan

the summer, will cover matters such as the certificate eligibility rules, targeted for action in the 1990 Bill.

A published consultative document?

3. The first issue is whether the consultative document should be sent only to an appropriate range of representative bodies, or made more widely available. We doubt if there would be much difference in the level of useful comments received. But as a general principle, you may prefer to have open rather than selective consultation. Also, it is probably easier to deal with enquiries, particularly from the Press, on the basis of a publicly available document.

4. We have therefore drafted on the basis of a consultative document going on sale from Budget evening and with copies being sent to representative bodies and interested Government departments. If you preferred selective consultation, only minor amendments to the draft document would be needed: but the draft Press Release would need substantial reconsideration.

Should the second phase of consultation be signposted now?

5. The next issue is whether the prospect of the summer consultative phase should be volunteered at this stage.

6. There are arguments for not doing so. We want the industry to pay serious attention to the first-stage proposals rather than be distracted prematurely by the eligibility rules. Last autumn (4 November), the Chancellor was cautious about provoking a year of lobbying about the structural reforms. So he was inclined against trailing them conspicuously in the Budget Speech.

7. Against that, speculation has for some time been abroad about the contents of the scrutineer's report. We, or you, are likely to be asked whether the first consultative document amounts to the totality of the Government's action

on the scrutiny. With only a few months before the next phase of consultation, we doubt whether we could reasonably deny the second phase. And if limited information would be given in response to questions, there is an argument for volunteering it.

8. It might be thought preferable for any signposting of the second phase to be done at Ministerial level. However, there is unlikely to be sufficient space for this to be done in the Budget speech, even leaving aside the Chancellor's earlier thoughts. Although any questioning may arise as soon as any publicity is given to the prospect of consultation, you could, if you wished, refer to the matter in your own Speech in the Budget debates.

9. It would be possible for the Budget Day announcement and Press Release to be very short and low key, and for the consultative document to be put on sale (or issued selectively) following an arranged Question soon after the Budget. But on balance, we think that a brief mention of the second phase in the Budget Day Press Release is the best initial course. Any necessary expansion could come from you at a later stage of the Finance Bill. In the interim, officials would maintain the line that they were authorised to consult only on the document available. This is the basis on which we have drafted: though little alteration would be needed to expunge the signposts.

Conclusion

10. We would be grateful for your views on:

- whether the first consultative document should be available generally or issued selectively
- whether the Press Release and consultative document should contain any signposting of the second phase of consultation; and if so, how detailed

BUDGET CONFIDENTIAL

- subject to amendment on points such as these, whether you are content with the Draft Press Release and the consultative document.

C. D. Sullivan

C D SULLIVAN

DRAFT CONSULTATIVE DOCUMENT

SUBCONTRACTOR SCHEME : REDUCING REQUIREMENTS

1. The present deduction and exemption scheme for subcontractors in the construction industry was introduced in 1971 and substantially revised in 1975. Since that last major revision there has been a continuing shift from employment to self-employment in the industry. The number of certificated individual subcontractors has trebled. As a result the work involved in operating the scheme, both for the industry and the Revenue, has grown very considerably.
2. Against this background, and in line with its commitment to deregulation generally, the Government set up last year an efficiency scrutiny to examine the scheme. [Following that scrutiny, they are now considering a number of possible changes to it, in particular to the rules for certificates exempting subcontractors from deduction at source.]
3. As a first step, [however,] they have authorised the Inland Revenue to consult the industry on the proposals that follow in this paper. Subject to the results of this consultation, these matters could be covered in regulations made later this year and coming into effect from 1 April 1990. Some of these regulations could be made under existing primary legislation; others would need an addition to these regulation-making powers, and the necessary extension will be introduced in the 1989 Finance Bill. This will allow all the regulations to be made on the same timescale.
4. The thrust of these proposals is to reduce the amount of paperwork the subcontractor scheme generates, while safeguarding and in some areas improving its effectiveness in deterring tax fraud. There is a balance between these objectives which it is essential to maintain.

5. Comments will be welcomed on the costs of complying with these proposals compared with the present system: and on whether there is room for any further reduction in these costs without opening up scope for abuse.

6. Comments should be sent to:

Inland Revenue
Room 17 New Wing
Somerset House
London
WC2R 1LB

to arrive by 31 May 1989.

7. In general, contractors must make a deduction on account of tax, currently at 25%, from payments to uncertificated subcontractors. This deduction is set against the subcontractor's tax liability under the normal Schedule D or Corporation Tax rules. However, subcontractors who are running a construction business and can demonstrate a good tax record may be issued with a certificate exempting them from deduction. Individuals, partners and small firms with exemption certificates are issued with books of vouchers. When a contractor makes a payment to a subcontractor, he should ensure that the payee correctly holds a valid exemption certificate. He should also make every effort to obtain a voucher. The voucher is pre-printed with the subcontractor's name and the voucher number. The subcontractor should fill in his certificate number, his business address, the name of the contractor and the gross payment; and date and sign the voucher before handing it to the contractor.

8. The contractor should then, every week, forward all vouchers he has collected to the Inland Revenue's Liverpool Computer Centre. Data processing then allows cross-checks of all the work done by a subcontractor, and all the work a contractor has paid for.

Reduced voucher requirements for smaller payments

9. There are now well over 6 million vouchers prepared by subcontractors and sent to the Inland Revenue each year. This places a substantial processing burden on both the industry and the Department. It must be desirable to reduce this burden if possible to do so.

10. However, vouchers are important in policing the scheme against fraud. So the proposals in this paper seek to reduce the submission of vouchers for small amounts, while giving better coverage where larger amounts are involved.

11. In 1987/88, almost 90% of vouchers submitted were for amounts of less than £2,000. In many cases, certificated subcontractors work mainly for one or two contractors and get frequent, sometimes weekly payments. In such cases small payments could be aggregated with little loss of security, provided that a voucher was signed for the first payment under each contract and that another voucher was signed for any residual amounts at the end of the contract. For proposals effective from April 1990, an aggregate figure of £2,500 might be appropriate. It is thought that this should substantially reduce the number of vouchers submitted. The extent of the reduction would depend on the proportion of small payments made under continuing contracts, rather than successive short-term contracts. It would also depend on whether both contractor and subcontractor were confident about when they could properly defer vouchers.

12. Views would be welcomed on the precise trigger for the voucher where a payment took the total through the aggregation limit. Take the example of an initial payment of £1000; a series of small payments totalling £2400; with the next (but not final) payment being £200. A voucher would be required for the first £1000. None would be required for the next payments. When the £200 was due, a voucher might be completed for £2400, leaving the £200 as the starting point for the next aggregation. Or the voucher might be for £2500, with £100 split off to the next aggregation. Or the voucher might be for the whole £2600. It
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would be useful to know which of these courses would be most convenient.

Improving contractors' ability to obtain the vouchers that are still necessary

13. The present subcontractor regulations require a contractor to make every reasonable effort to obtain a voucher within 7 days of making a gross payment to a certificated subcontractor. Some contractors use considerable resources attempting to obtain vouchers. Arguably, the legislation should provide more help to contractors in obtaining vouchers. Doing this when vouchers are being reduced would avoid a direct transfer to subcontractors of the burden. It is therefore proposed to require a subcontractor to deliver, by the time of payment, any voucher which is still required under the proposals. If no voucher was delivered, the contractor should make a deduction from the payment.

14. Views would be welcomed on the practicability of requiring vouchers at the time of payment. This could mean a meeting between representatives of the parties to the contract.

15. If there were substantial difficulties in such a requirement, other steps would be needed to cover the interaction with the aggregation proposal in paragraphs [9-12 above]. Contractors might prefer to be sure that the subcontractor would provide a voucher when needed before they made any small payment not requiring one. However, there might well be reservations about the subcontractor providing a partially-completed voucher right after the first (vouchered) payment, to be retrieved and fully completed once the next voucher was required by the £2,500 limit. That would also be a sharp departure from the present Revenue requirement that vouchers must be completed in full.

16. Another approach would be a voucher delivered to the contractor after the first small payment in the aggregation; retrieved for endorsement by the subcontractor on each subsequent small payment; and submitted to the Inland Revenue once the £2,500 limit was reached. Views would be welcomed on the extent

to which this would reduce costs compared with providing a separate voucher for each payment.

17. A further approach might be for the subcontractor to offer a voucher just before the payment taking the aggregate over the £2,500 limit was due. Such a voucher would show the amount of earlier payments and also the amount of the coming payment. A voucher of this sort would be a new departure. It would require the subcontractor to be confident of the amount he would receive. But it would allow postal rather than personal exchange of voucher and payment; and could be completed fully on a single occasion. There would be an interaction between this type of voucher and the aggregation trigger mechanism in paragraph 12 above.

18. Under these aggregation options, the principal inducement on the subcontractor to provide a voucher would be the prospect of deduction if he did not do so. If the subcontractor did not pay the tax due, and the contractor wilfully or carelessly failed to obtain a voucher which was due there would be recourse to the contractor. If a contractor made a succession of small payments where no voucher was properly due at the time of each, but the voucher due for the payment topping the £2,500 limit was not provided, then in principle there should be a deduction from all the payments. Deductions in respect of the earlier payments could not reasonably be recoverable from the contractor. But the contractor might be required to make deductions at a higher than normal rate from the payment breaching the limit and from future payments, until both the continuing unvouchered liability and the triggered past liability had been recouped.

19. For example, if payments totalling £2400 had been made, but no voucher was forthcoming when the next payment of £200 was due, the aim would be to recover deductions on the whole £2600 i.e. £650 with a 25% deduction rate. A higher deduction rate of, say, 50% would recover only £100 of this from the £200 payment, leaving the balance recoverable only by higher deduction from later payments.

20. It would be important that any such extra deduction should not lead to the subcontractor abandoning the contract. Views would be welcomed on the maximum realistic rate of any higher deduction.

Monthly submission of vouchers

21. Early submission of vouchers is part of the Department's monitoring system. However, if the industry found it more convenient to submit vouchers on a monthly cycle rather than within a set period after each was received, the loss of security should be acceptably small. Comments would be welcome on this, and on the most convenient dates in the month for contractors to send in their vouchers.

£10,000 limit for a voucher

22. Where subcontractors misuse their exemption documents, large and false amounts may well be entered on the vouchers. The amount of tax at stake for each voucher book and the temptations of document misuse, could be reduced if the payment that could be franked by each voucher was limited to, say, £10,000. Those who did receive payments of more than £10,000 would have to provide a voucher for each £10,000 or part thereof: or there would be a deduction from the excess. Contractors wilfully or carelessly breaching this requirement would be vulnerable to an assessment for the deduction under Regulation 12 if the subcontractor did not pay the tax due. Most subcontractors receiving single payments larger than £10,000 are companies holding 714C certificates. Only 1.7% of vouchers submitted in 1987/88 were for more than £10,000. So it seems unlikely that this proposed tightening up would cause serious inconvenience. But comments are invited.

Initial notification of payments to subcontractors with 714C certificates

23. Subcontractors meeting the statutory requirements are issued with one of the types of "714" exemption certificate. A contractor must satisfy himself that a subcontractor is the proper holder of a valid exemption certificate before paying him 822.

without the deduction. 714C certificates are potentially more vulnerable to misuse, since no vouchers are necessary and the certificates incorporate no photographs. Notification to the Revenue of the initial payment on all contracts awarded to 714C holders could be a way to give the Revenue the information it needs quickly to detect fraud involving 714C companies without placing an undue burden on contractors, or coming close to the introduction of vouchers for 714C holders. All that might be required could be notification at the start of the contract by the contractor of the details of the subcontractor company and the expected date of first payment. This might be done within a month of the payment, when the contractor was submitting his vouchers for other subcontractors. Views would be particularly welcomed on the likely compliance costs if this proposal were adopted.

Possible changes to voucher scheme forms

24. Subcontractors, particularly those with simple business records, will need a clear way of telling when a £2,500 figure for another voucher has been reached. Otherwise, they might give contractors unnecessary vouchers. That would reduce the simplification sought for the industry and the Revenue. Voucher books might therefore contain running total control forms. These could have sections to allow subcontractors to keep running subtotals of payments made since the last voucher was supplied and a running total of all vouchered amounts.

25. There have been suggestions that a control form should be provided for contractors' own use to record voucher submission. Many contractors will have their own record systems, often very sophisticated, and may prefer to continue to use these. But there might be advantage in making available forms to record details of vouchers submitted. Such forms would have provision for running totals of amounts paid to each subcontractor, details of all vouchers supplied by each and the date of submission to the Revenue's Liverpool Computer Centre.

26. Views would be welcomed on the value of such changes to forms.

Reduction in deduction scheme paperwork

27. Many uncertificated subcontractors work for only one or two contractors, from whom they receive frequent small payments throughout the year, each accompanied by a form SC60. Each such form must be produced by the contractor and processed by the Revenue. At present, it is permissible to aggregate amounts paid under a contract, providing a SC60 is given at the end of the year. Views are sought on the introduction of a mandatory minimum aggregation period of 3 months for payments under a continuing contract to an uncertificated subcontractor. Under such a proposal, the subcontractor would not be able to demand an SC60 for a continuing contract more frequently than quarterly.

28. Relevant factors are:

whether it would be clear when the contract ended, especially where there was no formal written contract

whether subcontractors would be content to wait for evidence of deduction when seeking repayment or credit for deductions

that contractors would still be expected to remit deductions to the Revenue monthly.

Issue of certificates and vouchers direct to subcontractors

29. At present, an application for an exemption certificate is sent to the subcontractor's tax office where the necessary checks are carried out. If these are satisfactory, the office then notifies the Revenue's Liverpool Computer Centre (LCS) who produce the certificate. The certificate is then returned to the tax office, which writes to the applicant asking him to call and collect it. The subcontractor must attend in person so that his appearance can, for security reasons, be checked against the photograph on the certificate. (714C certificates bear no photograph. They are posted directly to the applicant.)

30. An alternative would be for the applicant to deliver his application in person to his tax office, so that his appearance could be checked against the photograph supplied at the outset. Approved applications would be passed to LCS to issue a certificate by post direct to the subcontractor. This would shorten the time taken to get a certificate into the applicant's hands. Applications for replacement voucher books would be speeded up in a similar way.

31. Such a speeding up would be welcome. However, if documents, especially certificates, went missing in transit, the subcontractor waiting for them could suffer inconvenience in getting replacements and in demonstrating that he was not responsible for any misuse.

32. Tax offices write to certificate applicants telling them their application has been approved. So for certificate issue, subcontractors could at the same time be warned to notify the tax office if their certificate had not arrived within a given period. Views would be welcomed on whether subcontractors see any difficulties for them with such a method of issuing documents.

Activities covered by the scheme

33. The legislation sets out the activities which are, or are not, construction activities for the purposes of the scheme. Such definitions are necessary for clarity and to include all appropriate activities. They must also be drawn so as to reduce the risk of misdescription of activities in an attempt to circumvent the scheme's requirements. Views would be welcomed on activities that should be added to either the list of inclusions or exclusions. For example, there have been suggestions that the present treatments of tree-felling and of spoil removal from site are anomalous.

Conclusion

34. Ministers hope that proposals in these areas will yield worthwhile deregulation gains, and resource savings both for the
822.

industry and the Inland Revenue, while safeguarding the effectiveness of the scheme against tax evasion.

35. The document seeks comments, in particular, on

- the principle of, and the proposed options for, reducing the flow of 715 vouchers by aggregating small payments, other than the first and last under a contract
- the proposed requirement to deliver any necessary voucher by, rather than after, the time of payment
- monthly rather than weekly submission by contractors of vouchers to the Inland Revenue
- a limit on the amount covered by a single voucher
- initial notification of payments to 714C subcontractors
- possible forms revisions
- mandatory rather than permissive aggregation of payments onto a SC60
- the direct posting of documents to taxpayers
- the activities covered by the scheme
- the compliance costs of these proposals and any modifications

36. Comments should be sent to

Inland Revenue
Room 17
New Wing
Somerset House
London WC2R 1LB

to arrive by 31 May 1989.

DRAFT PRESS RELEASE

SUBCONTRACTOR SCHEME: CONSULTATION ON REDUCING
REQUIREMENTS

The Chancellor proposes in his Budget consultations on possible changes to the special regime for subcontractors in the construction industry. These changes are intended to reduce the burden of paperwork on the industry and the Inland Revenue while keeping safeguards against tax evasion.

2. The Inland Revenue are [today] issuing a consultative document. Subject to the results of consultation, the changes would come into force from April 1990. Views are sought by 31 May 1989.

[3. This is only a first step. The Chancellor proposes that later this year there should be consultation on a wider range of changes, in particular to the rules for certificates exempting subcontractors from deduction at source.]

DETAILS

4. Ministers have reviewed the subcontractor deduction and exemption scheme following an efficiency scrutiny last year. Views are now sought on how to reduce the administrative burden of the scheme while retaining, and if possible improving, its effectiveness in controlling tax fraud. The consultative document is available from [The Reference Room, Somerset House, Strand, London WC2R 1LB, price £1.10]. It covers the following proposals.

Voucher requirements

5. At present, most subcontractors can be paid for their services without any immediate deductions from the payments. They are issued by the Inland Revenue with pre-printed books of vouchers. In order to be paid gross by a contractor, a subcontractor should give the contractor a completed voucher for every payment. There are different procedures for large companies.

6. The consultative document suggests that:

- the first and last payments under a contract should remain supported by vouchers, but that no voucher be provided for intervening payments until the running total exceeds, say, £2,500.
- vouchers be provided by the subcontractor by the time of payment rather than within a week after payment
- vouchers be sent by the contractor to the Inland Revenue monthly rather than weekly
- there be a limit, say of £10,000, on the amount a single voucher may cover: so larger payments would need more than one voucher
- the Inland Revenue should be notified by the contractor of the first payment under a contract made to a subcontractor which is a large company with a '714C' certificate.

Deduction scheme paperwork

7. Subcontractors who are not exempt from the scheme have an amount, currently at 25%, deducted from payments made to them by contractors. Many

subcontractors receive frequent small payments, each with a form showing the amount deducted. Each form has to be sent to, and processed by, the Inland Revenue. At present, amounts paid under a contract may, if the subcontractor agrees, be shown on a single form, provided a form is given at the end of the year. Views are sought on making aggregation compulsory, so an uncertificated subcontractor might demand a form no more frequently than quarterly, where he was being paid under a single continuing contract.

Direct issue of certificates and vouchers

8. The consultative document proposes that all certificates and vouchers be posted direct to the subcontractor who has asked for them, rather than being routed through the local tax office.

Activities covered by subcontractor scheme

9. The legislation sets out activities which are, or are not, construction activities for the purposes of the scheme. There have been suggestions that there are anomalies, for example in the treatment of tree-felling or of removal of spoil from building sites. The consultative document seeks views on any aspects of the present definitions that could be clarified.

Compliance costs

10. Overall, these proposals should result in a significant reduction of paperwork, in line with the Government's commitment to deregulation. The consultative document specifically asks for views on the compliance costs of these proposals.

[Further steps

11. Ministers intend that a further discussion document be prepared this summer. This would cover

proposals for inclusion in the 1990 Finance Bill, principally on options for changing the rules for exemption from the tax deduction scheme and on options for reducing the rate of deduction.]

NOTES FOR EDITORS

1. There is a special regime for subcontractors in the construction industry. This regime does not extend to householders and others commissioning small works, but otherwise applies widely to self-employed subcontractors and those engaging them.
2. In general, contractors must make a deduction on account of tax, currently at 25 per cent, from payments to subcontractors. This deduction is set against the subcontractor's tax liability under the normal Schedule D or Corporation Tax rules. However, subcontractors who are running a construction business and can demonstrate a good tax record may be issued with a certificate exempting them from deduction. Individuals, partners and small firms with exemption certificates are issued with books of vouchers. When a contractor makes a payment to a subcontractor, he should ensure that the payee correctly holds a valid exemption certificate. He should also make every effort to obtain a voucher. The voucher is pre-printed with the subcontractor's name and the voucher number. The subcontractor should fill in his certificate number, his business address, the name of the contractor and the gross payment; and date and sign the voucher before handing it to the contractor.
3. The contractor should then, every week, forward all vouchers he has collected to the Inland Revenue's Liverpool Computer Centre. Data processing then allows cross-checks of all the work done by a subcontractor, and all the work a contractor has paid for.

BUDGET CONFIDENTIAL

4. The subcontractor scheme was introduced in 1971 to deter and detect substantial tax evasion endemic in parts of the construction industry. The last major revision of the scheme was in 1975. Since then, the number of subcontractors has increased sharply. The number of individuals with certificates has trebled. Well over six million "715" vouchers a year are now submitted.

5. The consultative document specifically asks for comments on compliance costs of the proposals, both relative to each other and to the present regime. Meanwhile, a draft Compliance Cost Assessment for these proposals can be obtained from:

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

DRAFT COMPLIANCE COST ASSESSMENT:
SUBCONTRACTOR SCHEME PROPOSALS

NATURE OF THE REGULATION

1. What is the origin of the regulation?

The proposals being exposed for consultation arise from an Efficiency Scrutiny commissioned by Treasury Ministers.

2. What is the problem requiring legislation? How severe is it?

The subcontractor scheme has remained broadly the same for more than a decade. The scheme remains necessary as an important deterrent to tax evasion. But where possible, it would be desirable to reduce the burdens it places on today's businesses and on the Revenue - such as the 6 million vouchers submitted each year. The consultations with the industry are aimed at finding ways of easing these administrative burdens while retaining adequate defences against fraud.

3. What is the existing regulatory provision, if any?

The existing scheme is now contained in Sections 559-567 Income and Corporation Taxes Act 1988 and in the Income Tax (Subcontractors in the Construction Industry) Regulations 1975 - SI 1960/1975, as amended. The scheme requires all those defined as contractors by the legislation, to deduct an amount in respect of tax and NIC from all labour payments they make to their subcontractors, unless the subcontractor has a special exemption certificate issued by the Inland Revenue. The contractor gives the subcontractor a form of receipt and forwards the amounts deducted to the Revenue. The sums deducted are set against the

subcontractor's liability under ordinary Sch D or Corporation Tax rules. Subcontractors who are entitled to exemption - except larger companies, where different procedures apply - give the contractor a signed voucher certifying the amount of the payment. These are forwarded to the Revenue weekly.

4. Are there alternatives to regulation? Why have these been rejected?

The existing scheme is a statutory defence against fraud. Non-legislative options would be wholly ineffective.

5. What timetable is proposed for the introduction of the new regulation? Must all measures be introduced at once or can these be introduced over a period?

Since these proposals are deregulatory it seems sensible to introduce them as soon as practicable for both sides. It is hoped that the regulations can be laid in the Autumn of 1989 to give the industry time to plan for the changes before implementation in April 1990.

6. Can the period of operation of the new regulation be limited?

No.

7. How will the regulation be enforced? By central government or through local authorities?

The new regulations would be enforced by the Revenue's PAYE Audit staff and the Board's investigation section as at present. Contractors who negligently or wilfully fail to deduct when they should may, as now, be required to reimburse the Revenue for any resulting loss. Contractors and subcontractors who deliberately

misuse scheme documents may be liable to criminal proceedings.

8. What specific provisions for small firms have been considered; such as exempting them from the regulation's requirements or other measures?

One of the proposals is specifically aimed at reducing the number of vouchers that small subcontractors have to complete. It is also proposed to provide special forms to help small firms - contractors and subcontractors - to keep proper scheme records.

9. What consultations have there been with business? Are there any concerns raised by business which have not been met? If so what are they?

A consultative document is being issued on Budget Day.

IMPACT ON BUSINESS

10. Are certain sectors of industry or companies of a certain size likely to be particularly affected by the regulation? Please state the numbers of companies or establishments and employees which will be affected.

There are around 800,000 businesses in the construction industry ranging from PLCs to one-man firms - predominantly the latter. All should benefit to some extent from the changes. But the small certificated business will perhaps benefit the most.

11. What will businesses have to do to comply with the regulations? How will this compare with their current practices?

Essentially businesses would only have to do what they do now; but less often.

12. What additional resources or work will businesses be faced with in modifying their behaviour to comply with the regulation. What will this cost (a) a typical business and (b) industry as a whole?

Businesses may need to review their procedures, but the proposals should result in resource savings overall. The consultative document specifically asks for the industry's views on compliance cost effects.

BENEFITS

13. What will be the benefits to the UK economy as a whole, to the Government objectives, to consumers, employees, traders or enforcement authorities?

These proposals represent another step in the Government's deregulation drive. By reducing administration in both industry and the Revenue, they should reduce business costs whilst streamlining Government procedures. There may also be some improvement to the security of the subcontractor scheme with a resultant improvement in tax revenue.

MONITORING AND EVALUATION

14. What steps are being taken to measure the effectiveness of the new regulation in meeting its objectives? When will the regulations be reviewed?

A preliminary assessment of the effectiveness of any new measures introduced as a result of consultations would not be possible until they have been in place for at least a year. Appropriate statistics will be kept and the Revenue intend to seek the views of industry.



FROM: P W FAWCETT

21 FEBRUARY 1989

- See 21/2*
1. MR HOUGHTON
 2. FINANCIAL SECRETARY

UK/NETHERLANDS ANTILLES DOUBLE TAXATION AGREEMENT

1. You will recall that we terminated our double taxation agreement with the Netherlands Antilles last June with effect from April 1989 in the United Kingdom (January 1989 in the Netherlands Antilles). In our press release of 24 June announcing our intention to do this, we said, with the agreement of Ministers, that the Government intended to preserve the existing exemption from tax of interest paid from the United Kingdom to the Netherlands Antilles to fund the payment of interest on Eurobonds issued by Netherlands Antilles finance subsidiaries before 26 July 1984 (the date from which Eurobond interest could be paid gross abroad) and that, if necessary, it would introduce legislation in this year's Finance Bill to achieve this.

2. We are informed that there are only three Eurobond issues of this kind but the City advised us that it was necessary to take

c. PS/Chancellor
Sir Peter Middleton
Mr Scholar
Mrs Lomax
Mr Culpin
Mr Peretz
Mr Gilhooly
Mr Ilett
Mr Tyrie
Mrs Chaplin
Mr Evans (IDT)
Mr Jenkins (Parliamentary Counsel)

Chairman
Mr Isaac
Mr Houghton
Mr Johns
Mr Cleave
Mr O'Connor
Mr Phalp
Mr Hunter
Mr Sadler
Mr Thomas
Mr Elliss
Mr Fawcett
Mr Steele
Mr Michael
Miss McFarlane
PS/IR

this course to avoid disrupting the Eurobond market. And we believe, in the light of what happened at the time of the announcement, that this was the right advice.

3. The press release also said that substantial progress had been made on a new double taxation agreement and that it was intended that further exchanges would take place at official level with a view to preparing a text for submission to the two Governments. Since then we have had a number of meetings and exchanged a number of letters with representatives of the Netherlands Antilles. We have continued to make progress and last wrote to the Netherlands Antilles on 13 January to agree on arrangements for a conference call by telephone to resolve the outstanding points. The intention has been throughout that any new agreement would run end-on with the old agreement to preserve the Eurobond position. Since, however, we have had no response from the Netherlands Antilles, we must now consider what to do about the Eurobond position in the absence of a new agreement.

4. One option we would advise against straightaway is to try to modify in some way our notice of termination, as the US did, to preserve the position of this interest. The reasons for our recommending against this are the difficulty the US had in this course (which incidentally included all interest) - there were doubts whether such a modification was legal - and the fact that it would be something of a volte-face, even though it might be argued that it was foreshadowed in the press release referred to above.

5. We think that the right action is to proceed as we originally advised and as Ministers agreed, that is to legislate (presumably very briefly). It may be too late to get a provision in the Finance Bill as published but we would hope that it would be possible to bring forward an amendment at Committee Stage. The alternative would be to legislate in next year's Finance Bill, on the footing that the position on a new agreement would be clearer then. The argument against is that it would leave us

without cover for giving tax exemption for a year, and this would be awkward.

6. We would therefore recommend (brief) legislation at Committee and that an announcement should be made at the beginning of April (the date from which termination of the old agreement takes effect) by Parliamentary Answer and press release accordingly. If you agree to this course, we will instruct Parliamentary Counsel shortly, and clear a Parliamentary Answer and press release with you accordingly.

PWF

P W FAWCETT



Inland Revenue

Business Tax Division
Somerset HouseFROM: J H REED
DATE: 23 FEBRUARY 1989

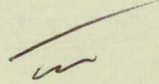
CHANCELLOR

STARTER 206: CLOSE COMPANY LEGISLATION

Paragraph 4.22 of the draft FSBR says that a higher rate of corporation tax of 40 per cent will be introduced for close investment companies. You have commented "surely better to have the higher rate of income tax, rather than a special rate of Corporation Tax?"

2. We assume that you are not proposing making close investment companies liable to income tax instead of corporation tax (which would involve a great deal of legislation and might well present real difficulties). We therefore assume that you are proposing to link the special rate of corporation tax to the higher rate of income tax, so that if the latter changed the former would change automatically. This would be consistent with the proposed corporation tax rates for the policy holders' share of life assurance income and gains and for unit trusts that are UCITS (both of which will be linked to the basic rate of income tax).

3. I have discussed this with Mr Isaac who sees no difficulty. If you wish, I shall instruct Parliamentary Counsel accordingly and ensure that the necessary changes are made to the FSBR, the relevant press release and the Budget brief.


J H REED

cc Financial Secretary
Mr Culpin
Mr Gilhooly
Mrs Chaplin
Mr Tyrie
Mr Jenkins (OPC)

Mr Isaac
Mr McGivern
Mr Bush
Mr Cleave
Mr Calder
Mr Campbell
Mr Reed
Miss McFarlane
PS/IR



Handwritten scribble

FROM: FINANCIAL SECRETARY

DATE: 24 February 1989

CHANCELLOR

cc: Sir Peter Middleton
Mr Scholar
Mrs Lomax
Mr Culpin
Mr Peretz
Mr Gilhooly
Mr Ilett
Mr Tyrie
Mrs Chaplin
Mrs Evans (IDT)
Mr Jenkins
(Parliamentary
Counsel)
Mr Houghton IR
Mr Fawcett IR
PS/IR

Ch. Agree FST?
OK -
24/2

BUDGET STARTER 405: EURO BONDS AND UK/NETHERLANDS ANTILLES DOUBLE TAXATION AGREEMENT

The Inland Revenue note of 21 February recommended brief legislation (a few lines) to honour a Ministerial commitment from last June (when we terminated the UK/Netherlands Antilles Double Taxation Agreement). The commitment was that if a new agreement was not negotiated by 6 April the Government would introduce legislation in this year's Finance Bill to preserve the existing exemption from tax of interest paid from the United Kingdom to the Netherlands Antilles to fund the payment of interest on Eurobonds issued by Netherlands Antilles finance subsidiaries before 26 July 1984 (the date from which Eurobond interest could be paid gross abroad).

2. I asked the Revenue two questions.

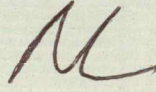
3. First, why is legislation unavoidable? The answer is that Inland Revenue need statutory cover to give such exemption from tax. I understand that there are only a few pre-1984 Eurobonds still in issue but the principle of public accountability is important and the taxpayers are well known (one of them is Lonrho). The Inland Revenue are having a telephone conference with the Netherlands Antilles next Wednesday and it is just possible but unlikely that a new agreement - which contains a continuation provision - could be initialled fairly shortly. There could still however be a period without statutory cover. The other alternative would be to try to modify the notice of termination for this one item, but, even if we could do this, the UK, could end up being a laughing stock seeking to do this.

4. Second, why cannot we legislate next year? The answer is that the UK would be going a whole year without cover for the Inland Revenue giving exemption and we have a commitment to legislate this year. This aside, it seems to me that if we are going to legislate it is better to do so sooner rather than later.

5. We are, of course, very concerned about the length of the Bill, but I think that given that the legislation should be no more than a few lines, this is perhaps a reasonable price to pay for having got rid of the old UK/Netherlands Antilles Double Taxation Agreement. (The US had so much difficulty with termination of their agreement that they had to withdraw their notice of termination to the extent that it related to interest, and this proved damaging to them.)

6. In the circumstances I recommend that we should make contingency plans to have a provision in this year's Finance

Bill. I told the Inland Revenue that if Ministers agreed to the provision it would be very much better to have it in the Bill as published rather than as an amendment in Committee.



NORMAN LAMONT



FROM: J M G TAYLOR
DATE: 24 February 1989

Phyp

MR REED - INLAND REVENUE

cc Financial Secretary
Mr Culpin
Mr Gilhooly
Mrs Chaplin
Mr Tyrie

Mr Jenkins - OPC
Mr Isaac - IR
Mr McGivern - IR
Mr Bush - IR
PS/IR

STARTER 206: CLOSE COMPANY LEGISLATION

The Chancellor was grateful for your note of 23 February.

2. He is indeed proposing to link the special rate of corporation tax to the higher rate of income tax, so that if the latter changed the former would change automatically. He would be grateful, therefore, for you to proceed as you propose.

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

J M G TAYLOR



FROM: FINANCIAL SECRETARY

DATE: 24 February 1989

CHANCELLOR

cc Sir P Middleton
Mr Scholar
Mr Culpin

Mr Jenkins - OPC

Mr Lewis)
Mr Massingale) IR
PS/IR*Ch/Agree FST?**26
24/2**OK***STARTER 103: SECURITY COSTS**

I have discussed Mr Massingale's minute of 17 February with officials.

I am content with the way in which the Revenue proposes structuring this very sensitive exemption. However, the most contentious issue is whether close company directors and the self-employed are inside or outside the scope of the exemption.

In both cases the relief would be subject to the tests in paragraphs 5 and 7, which limit and particularise the possible body of claimants, and limit the nature of the qualifying expenditure. It would not be open-ended. Nor would it be a personal relief, but would apply only by virtue of the specific employment. So my strong view is that they should both be within it. It is easy to imagine businessmen at risk might be employed by close companies. Equally, some self-employed people would be at risk; though they would be subject to the same tests. Not to include them would be "grudging" and give higher profile to an issue I am sure we want to keep as low-key as possible.

In summary, therefore, I agree with the general approach restricting the body of claimants and with the proposals for qualifying expenditure. Furthermore, I recommend that both close company directors and the self-employed should be covered. Finally, I suggest that past years' tax liabilities should not be pursued and that there should be no Budget Day announcement, but a Press Release when the Bill is published.

R.C.M.S.
NORMAN LAMONT

fst.sb/R Satchwel/7.24.2.



psf

FROM: R C M SATCHWELL
DATE: 24 February 1989

MR O'CONNOR - IR

cc: PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Peretz
Mr Ilett
Mrs Chaplin
Mr Tyrie
Mr Plenderleith - Bank
Mr Bowman - OPC

Mr Corlett - IR
PS/IR

✓

STARTER 453: MINOR CONSEQUENTIALS

on string in folder behind.

The Financial Secretary was grateful for your minute of 20 February, which he discussed with you and others. He is content to include in the proposed tax regimes for deep discount bonds provisions to exempt pension funds and transfers forming part of a stock lending transaction from the charge on the profits from disposals of such bonds, but to charge trusts (excluding unauthorised unit trusts) at the additional rate.

R.C.M.S.
R C M SATCHWELL
Private Secretary

Handwritten initials



FROM: J M G TAYLOR
DATE: 27 FEBRUARY 1989

PS/FINANCIAL SECRETARY

cc Sir P Middleton
Mr Scholar
Mrs Lomax
Mr Culpin
Mr Peretz
Mr Gilhooly
Mr Ilett
Mr Tyrie
Mrs Chaplin
Mr Evans - IDT
Mr Jenkins - P Counsel
Mr Houghton - IR
Mr Fawcett -IR
PS/IR

BUDGET STARTER 405: EURO BONDS AND UK/NETHERLANDS ANTILLES DOUBLE TAXATION AGREEMENT

The Chancellor was grateful for the Financial Secretary's note of 24 February.

2. He is content to proceed on the basis that we should make contingency plans to have a provision in this year's Finance Bill.

Handwritten signature

J M G TAYLOR



FROM: J M G TAYLOR
DATE: 27 February 1989

pmg

PS/FINANCIAL SECRETARY

cc Sir P Middleton
Mr Scholar
Mr Culpin

Mr Jenkins - OPC

Mr Lewis - IR
Mr Massingale - IR
PS/IR

STARTER 103: SECURITY COSTS

The Chancellor was grateful for the Financial Secretary's note of 24 February.

2. He is content to proceed as the Financial Secretary proposes: ie he agrees with the general approach restricting the body of claimants; with the proposals for qualifying expenditure; that both close company directors and the self-employed should be covered; that past years' tax liabilities should not be pursued; and that there should be no Budget Day announcement but a press release when the Bill is published.

JG

J M G TAYLOR



Inland Revenue

Business Tax Division
Somerset House

FROM: J H REED

DATE: 2 MARCH 1989

1. MR MCGIVERN
2. FINANCIAL SECRETARY

Note at end.

to
JHR
2/3

STARTER 206: CLOSE COMPANY LEGISLATION

This note seeks decisions on various outstanding points. (Our instructions to Parliamentary Counsel and the first draft of the press release on this starter make some assumptions about your decisions but these can of course be revised as necessary.)

Commencement

2. Apportionment and corporation tax both apply by reference to company accounting periods. It seems sensible therefore to replace apportionment by the new provisions for whole accounting periods (instead of having to split a period in two). We recommend that the change should apply for accounting periods commencing after 31 March 1989. This would mean that two

cc PPS
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gilhooly
Mr Ilett
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Jenkins (OPC)

Mr Isaac
Mr McGivern
Mr Bush
Mr Cleave
Mr Corlett
Mr Campbell
Mr Davenport
Mr Gordon
Mr Eason
Mr Fitzpatrick
Mr Stewart
Mr Cayley
Mr Reed
Mr Golding
Mr Huffer
PS/IR

companies whose accounting periods start on different dates could find different tax regimes applying to them until the transition is complete. But this would not usually make much difference in practice.

3. There has to be a slight amendment to the definition of 'close company' because at present this partly depends upon the apportionment legislation and this will not exist in future. We have devised a replacement which operates by reference to people's rights to the assets of a company. This will usually produce the same result as the existing definition - ie, companies that are or are not close at present will usually have the same status under the revised definition. The concept of a close company is widely used in the tax system and does not always operate by reference to accounting periods. So we recommend that the new definition should apply from 1 April 1989.

Transitional relief

4. If income is apportioned to someone and it is subsequently distributed to him he is not taxed again. In principle, this relief should continue to be available even if the subsequent distribution takes place after apportionment is abolished. However, the operation of the relief depends upon part of the apportionment legislation (we need to calculate the company's "relevant income" at the time of the distribution). Technically, there is no difficulty in keeping this part of the apportionment legislation in force for the purposes of the transitional relief. But operationally it would become increasingly more troublesome to refer back to old legislation.

5. We therefore recommend a limited transitional relief. The relief would be available only for distributions made before, say, 1 April 1992. This would give companies sufficient time to arrange the payment of dividends so that their shareholders could benefit from the relief.

Groups of companies

6. A close investment company (CIC) could form part of a trading group. If nothing were done, a trading loss of another member of the group could be set against the CIC's profits, saving CT at 40 per cent (assuming the CIC did not pass the distribution test). We might as a result get CT at 25 or 35 per cent from another member of the group which would otherwise have used the loss. But overall, less tax would be paid. It is not difficult to produce trading losses by suitable intra-group transactions and this would be an attractive way of avoiding the 40 per cent tax charge.

7. It would be easy to stop this by preventing a non-CIC surrendering a loss to a CIC. We recommend that this be done. (This would not affect non-trading members of a group which exist for the purposes of the trading members - such a company will not be a CIC.)

8. A similar point would arise if a CIC had an asset with an accrued capital gain. If the group wanted to sell the asset it could first transfer it to a trading member of the group which would then sell it. That company would pay CT at 25 or 35 per cent while the CIC would have paid at 40 per cent. Alternatively, an asset with an accrued loss could be transferred to the CIC and sold by it, so that the loss could reduce the capital gain on the sale of the other assets.

9. This avoidance could easily be avoided by denying no gain/no loss treatment to a transfer of an asset between a CIC and a non-CIC. We recommend this.

Dividends paid by a CIC

10. You will recall that a CIC which fails the distribution test will pay CT at 40 per cent on its profits plus the dividends (and other distributions) which it receives. The latter will have a tax credit of 25 per cent so that the

effective tax charge is only 15 per cent. This means that the tax charge is the same as applies to a higher rate taxpayer who receives a dividend.

11. Dividends paid by the CIC will be deductible from dividends received by it. This prevents a double charge on both the CIC and the person who receives a dividend from it. But, as I said in my note of 16 November (paragraph 65), if all dividends were deductible there would be scope for tax avoidance. For example, a controlling shareholder who was a higher rate taxpayer might arrange matters so that dividends went disproportionately to his or her children, who might have unused tax allowances or be liable at the basic rate only. We therefore recommend some restrictions on the deductibility of dividends paid by a CIC. These should apply both for the distribution test and for taxing a CIC which fails the distribution test.

12. First, only dividends on ordinary shares should be deductible (not dividends on fixed-rate preference shares). And there must be no more than one class of ordinary shares if dividends are to be deductible. For the vast majority of CICs we doubt that these restrictions will have any effect - their share capital will consist only of one class of ordinary shares.

13. Second, other forms of distributions should not be deductible (for example, a purchase by a company of its own shares may give rise to a distribution). Again, very few CICs should be affected by this.

14. Third, we need a restriction to deal with the case where a shareholder is not paid a dividend (for example, he may waive his right to a dividend). If no special provision were made a higher rate controlling shareholder could simply waive his entitlement so that the only dividends paid went to members of his family who were not higher rate taxpayers. What we recommend is that where someone is not paid a dividend there should be a reduction in the amount of the dividends that would otherwise be deductible. This can best be shown by

an example. Suppose a company has taxable profits of £600. It declares a dividend of £1,000 but the controlling shareholder waives his entitlement to the dividend, which is £400. So the company actually pays out £600. If we made no special provision the company would therefore pass the distribution test. What we propose is that for the purposes of the deduction for the distribution test (and in applying the special rate of CT to a company which failed the distribution test), the £600 would be reduced to the proportion of it which the amount paid out bears to the total amount of the declared dividend. In this example the proportion is 60 per cent, so only £360 would be deductible. This would cause the company to fail the distribution test.

15. The justification for this formula is that if the actual dividend pay-out (£600) had been distributed equally among the shareholders only £360 would have gone to those shareholders who actually received £600. The other £240 would have gone to the controlling shareholder and been liable to higher rate tax. So the £240 should not be deductible for the purposes of the 40 per cent CT charge on the CIC (including for the distribution test).

16. The formula would not entirely eliminate the scope for avoidance. A higher rate taxpayer could waive up to 16 per cent of the dividend pay-out by a property company and it could still pass the distribution test if it distributed all its profits (the corresponding figure for a non-property company is 8 per cent). But we think that these figures are too small to be worth worrying about.

Payment of tax credit

17. Taken together, the three restrictions I have just described should give adequate protection against the avoidance of a 40 per cent tax charge (either on an individual or on a CIC) by diverting dividends to shareholders who are not liable to the higher rate of income tax. But if these shareholders had unused tax allowances, and were therefore entitled to be paid the tax credit attaching to a dividend or

other distribution, there could still be widespread tax avoidance. A CIC would pay CT at 40 per cent (15 per cent in the case of dividend income) but the shareholders with unused allowances would be paid the tax credit of 25 per cent attaching to the dividends. Overall there would be a tax saving of about 20 per cent. This device could be used to transfer income to a husband or wife, or to minor or student children. Our chances of successfully challenging this kind of device under the existing "settlements" legislation are uncertain and depend on establishing the precise facts of each case. This can be difficult and we think it would be unwise to rely on the settlements legislation to counter this device.

18. It is difficult to predict how much use would be made of this device but the potential cost is large. For example, we estimate that in 1989-90 there will be 125,000 individuals with investment income of over £20,000. If, say, 50,000 individuals each set up a CIC and diverted sufficient income to use up the personal allowances of two other individuals the payment of tax credit would total £65 million. This is not a forecast, merely an illustration of the potential cost.

19. This abuse is possible under existing law (so we are not dealing with a consequence of the abolition of apportionment). Ordinarily we would not trouble Ministers with an avoidance device of this kind until there was evidence that it was being used on a large scale. But there is a new factor operating - last year's abolition of tax relief on normal covenants. As a result, people may be looking for an alternative way of transferring income to someone with unused tax allowances. And once independent taxation is in force the scope for this will increase considerably. If the owner retains control of the property (or some interest in it) and merely transfers the income there is a good case for counteracting any tax advantage. This ^{would} complement the proposed changes to the settlements legislation (Starter 188) which was designed to prevent the use of trusts to obtain tax advantages which are no longer available through non-charitable covenants.

20. We think that it is worth taking some preventative action now, as part of the replacement of the apportionment legislation. We recommend that those dividends which are not deductible (paragraphs 12 to 14 above) should not carry any entitlement to payment of a tax credit to a UK resident. This would be a relatively straightforward provision and should do much to deter potential avoidance through the use of CICs to transfer income.

21. The avoidance device would work just as well with a close trading company. And there are hundreds of thousands of these. So there is an argument for a similar anti-avoidance provision to the one we propose for CICs. However, with a trading company it is possible to avoid tax by paying a salary to the person with unused tax allowances and getting a deduction from the company's trading profits. If the owner pays a salary of, say, £2,000 to his wife or an older child and claims that they have done some work for the company this can be difficult to disprove. Furthermore the restrictions we propose for CICs could be harsh if applied to trading companies (for example a trading company may have good commercial reasons for having more than one class of share). So, at least for the time being, we recommend against denying payment of tax credit on any dividends paid by close trading companies.

Distribution test for groups of companies

22. In general, we propose that the distribution test should work in the same way for members of a group of companies as for an individual company. The test will be applied to each CIC separately, so it is possible that some members of the group will pass while others will fail. This does not cause any problems, and it is of course possible for a group, if it wishes, to arrange its intra-group dividends so that every member passes the test. The alternative would have been to adapt the distribution test so that it applied on a group basis but this would have made the legislation more complicated, particularly for a group consisting of trading companies as well as CICs.

23. But there is one difficulty, which can be shown by a simple example. Company A holds investments. Its shares are owned by Company B, which has no other assets. The shares in Company B are held by a family. Both companies are CICs. Company A distributes 85 per cent of its income to Company B and so passes the distribution test. Company B distributes 85 per cent of what it receives from Company A and so it too passes the distribution test. But only 72.25 per cent (85 per cent of 85) of the investment income has been passed through to the family where it will suffer a 40 per cent tax charge. The remainder will suffer only the normal CT rate.

24. So by putting in a holding company the distribution test can effectively be lowered. And inserting more companies would lower it further. This would be a simple and cheap way of avoiding tax. To prevent this we recommend a modification of the distribution test.

25. The modification would apply when a company received a dividend from a company which it controlled. Essentially, the company would have to distribute the whole of the dividend in order to pass the test. The way we propose to do this is by deducting dividends received from a controlled company from dividends paid out before applying the distribution test. So the test will be that the company has to distribute the whole of this dividend income and at least 85 per cent of its other income and capital gains.

Annual payments

26. A company can get a deduction for various payments which do not relate to its business and which would not be deductible if paid by an individual. Perhaps the best example of these "annual payments" is a covenanted payment to a charity which does not apply its funds charitably (and is therefore not itself entitled to the normal exemption for charities). As part of the package of measures for replacing the apportionment legislation we proposed disallowing such

payments (but not covenanted payments to genuine charities) if they were made by a CIC, and we have instructed Parliamentary Counsel accordingly.

27. We recommend that the legislation should go further and should exclude annual payments (other than interest) made by any close company if they would not be deductible if made by an individual. This would be consistent with the existing rules for the apportionment of annual payments which cover all close companies, including trading companies.

Dealing companies

28. You will recall that companies dealing in shares, securities or land are to be treated as CICs. This is necessary to prevent investment companies being dressed up as trading companies which are outside the CIC legislation. But there is a risk that some genuine dealing companies would be caught by the 40 per cent CT charge. So in my note of 16 November I said that we proposed to exclude members of The Stock Exchange. At a subsequent meeting we said we would discuss with the Treasury and the Bank whether the exclusion should go wider. We have since spoken to FIM who think it unlikely that any members of The Stock Exchange would be affected (although they cannot be sure). In view of this, we recommend that the Finance Bill as published should contain no exclusions. If this gave rise to complaints you could undertake to look into these and bring forward any necessary amendments.

BES companies

29. You may like to be aware that BES companies which are close companies will be CICs (eg "Link" companies and those formed under the Johnson Fry SCAT scheme). So if they do not pass the distribution test they will be subject to the 40 per cent rate. They may complain but they are at present within the scope of the apportionment legislation. And since there

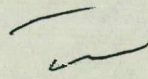
will have been double tax relief for their investors (BES relief plus interest relief) they are unlikely to attract much sympathy.

Conclusion

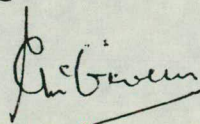
30. Do you agree to the following recommendations.

- i. The replacement of apportionment should apply to accounting periods commencing after 31 March 1989 and the new definition of 'close company' should apply from 1 April 1989 (paragraphs 2 and 3).
- ii. The existing relief where income is distributed to someone to whom it had earlier been apportioned should cease to apply for distributions after 31 March 1992 (paragraph 5).
- iii. A non-CIC should not be able to surrender a loss to a CIC nor should CG no gain/no loss treatment apply to transfers between such companies (paragraphs 6 to 9).
- iv. Certain dividends should not be taken into account for the distribution test or be deductible for the purposes of the 40 per cent CT charge (paragraphs 12 to 16).
- v. The tax credit on those dividends should not be payable to shareholders with unused tax allowances or other reliefs (paragraph 20).
- vi. A company receiving a dividend from another company under common control should have to distribute all of it for the purposes of the distribution test (paragraph 25).
- vii. An annual payment by any close company should not be deductible unless it would have been deductible if made by an individual (paragraph 27).

- viii. There should be no exclusion from being a CIC for any dealing company (paragraph 28).


J H REED

There may be some objections to these provisions on the grounds that they are too restrictive, but without them the new arrangements are vulnerable to abuse in the way in which Mr Reed has indicated. It is important that close investment companies - in particular, existing companies - should not be able to step round the distribution test or to use the simpler regime to channel dividends and the tax credit to basic rate or non-taxpaying members of their controlling shareholder's families.





DEPARTMENT OF THE ENVIRONMENT
2 MARSHAM STREET LONDON SW1P 3EB
01-276 3000

ECONOMIC SECRETARY	
REC'D	09 MAR 1989
ACTION	Mr Gaw C+E
COPIES TO	PS/CHX, Sir P. Middleton, PS/IST, PS/FST, PS/PMG. Mr Scholar, Mr Michie Mr Wood Mr Culpin Mr Gilhooly, PS/C+E

My ref:
Your ref:

OWP

Mr Wilmott, Mr Jefferson Smith 7 March 1989

Dear Sheila

INTER-DEPARTMENTAL MEETING ON UNLEADED PETROL

I am writing to confirm the arrangements for the meeting to be held on 15 March. The Agenda for the meeting is enclosed.

This Department is pursuing a number of initiatives to promote the use of unleaded petrol. We know that other Departments have plans of their own to encourage the use of the fuel. The purpose of this meeting is to discuss and co-ordinate future strategy and to ensure that the efforts of Departments are properly co-ordinated.

I would be grateful if you could let me know who will be attending the meeting as soon as possible so that I may arrange for them to receive building passes. The passes will be available at Entrance 5, North Tower, 2 Marsham Street.

If you need any further details please let me know, my telephone number is 276 3170.

Yours sincerely

MYRNA IRELAND
Assistant Private Secretary

PS/Mr Lilley



DEPARTMENT OF THE ENVIRONMENT

INTER-DEPARTMENTAL MEETING ON UNLEADED PETROL

AGENDA FOR MEETING TO BE HELD AT 4.00pm ON WEDNESDAY 15 MARCH 1989 IN ROOM P3/160, 2 MARSHAM STREET, LONDON SW1

1. Duty differential
2. Progress on outlets, uptake and compatibility of car fleet.
3. Targets
4. Promotional initiatives:
 - a. Governmental (each Department's plans)
 - b. Non-Governmental (Motability, CLEAR, Oil Industry, Motor Manufacturers etc)
5. Combating misinformation
6. Two-Star petrol
7. Any Other Business



Inland Revenue

Savings and
Investment Division
Somerset HouseFROM: C STEWART
EXT: 7414

DATE: 7 MARCH 1989

1. MR CORLETT *CS*
2. MR ISAAC *CS 7/3*
3. PAYMASTER GENERAL

STARTER 151: COVENANTED MEMBERSHIP SUBSCRIPTIONS TO CHARITIES

I attach a draft Budget Day Press Release on the proposal to relax the rules for covenanted membership subscriptions to heritage and conservation charities, and would be grateful for your approval.

CS

C STEWART

cc **Chancellor**
 Chief Secretary
 Financial Secretary
 Economic Secretary
 Mr Scholar
 Mr Culpin
 Mr Gilhooly
 Mrs Chaplin
 Mr Tyrie
 Mr Jenkins (OPC)
 Mr Gieve

Mr Isaac
 Mr Corlett
 Mr Bush
 Mr Davenport
 Mr Rodger
 Mrs Fletcher
 Miss McFarlane
 Mr Stewart
 PS/IR
 Mr Denton

**INLAND
REVENUE****Press Release**

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

[3x]

14 March 1989

**COVENANTED SUBSCRIPTION PAYMENTS TO
HERITAGE AND CONSERVATION CHARITIES**

The Chancellor proposes in his Budget to relax the present rules governing tax relief for membership subscriptions paid by deed of covenant to heritage and conservation charities. If the member is given the right of free or cheap entry to view the charity's property, that benefit will be ignored in determining entitlement to relief.

DETAILSBackground

Where a deed of covenant is used to make donations to charity, the donor deducts basic rate tax from each payment and the charity can usually claim this tax back from the Inland Revenue. Sometimes covenants are used to pay membership subscriptions to charities. But, at present, the charity cannot claim tax back if there is a significant benefit to the donor in being a member.

The Proposal

Certain heritage and conservation charities will be able to disregard the benefit of free entry to view the charity's property so that this benefit does not disqualify the covenant payments from relief.

The charities concerned are those whose sole or main purpose is the preservation of property or conservation of wildlife for the public benefit. This will also include museums and supporters' organisations (such as "Friends" of museums) which have charitable status.

The benefit to be ignored is the right of entry to view the property or collection by the member (or by those of his family covered by family membership arrangements), without paying the admission charges made to non-members. The benefit must not be capable of being sold or passed on by the member to someone else.

Other benefits provided by charities for their members will continue to be treated in accordance with existing law.

The proposal applies to covenant payments due on or after today.

/NOTES FOR EDITORS

NOTES FOR EDITORS

1. Where donations are made to charity by covenant, charities can generally claim repayment of the basic rate tax deducted by the donor. But it is not quite so straightforward if the covenant payments are for a membership subscription and the donor gets benefits (goods, services or other facilities) from the charity in return for his payments. When this happens, the question is whether the benefits are so substantial that the charity loses its entitlement to a refund of the tax deducted.
 2. The question has to be decided in the light of the relevant case law. For example the High Court decided in the case of Taw and Torridge Festival Society (38 TC 603) that benefits worth almost 25 per cent of a membership subscription cannot be ignored as insubstantial. For ordinary small subscriptions, it has been Inland Revenue practice in general to ignore benefits if they are worth less than 25 per cent; but to refuse tax repayments to charities where the benefits provided for members were worth 25 per cent or more of the ordinary annual subscription. It is the availability of benefits which counts for this purpose, not the actual use made of them by members.
 3. The cost will depend on how many charities make use of the legislation and on how many members decide to covenant subscriptions, but could be about £10 million.
-

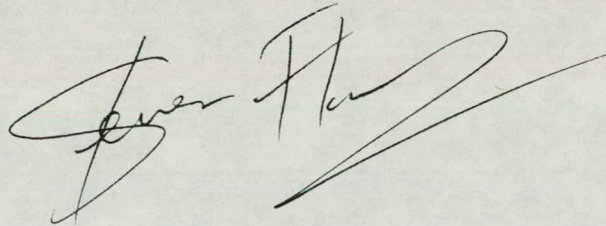
FROM: S J FLANAGAN
DATE: 7 March 1989

1. MR GILHOOLY *2/13*
 2. CHANCELLOR
- ✓*

cc Sir P Middleton
Mr Scholar
Mr Dixon
Mr Rayson
Mr Macpherson
Mrs Chaplin
Mr Tyrie

BUDGET CONSULTATIONS: MR HURD AND MR RIFKIND, WEDNESDAY 8 MARCH

Tomorrow, you are meeting Mr Hurd at 2.45 pm and Mr Rifkind at 3.00 pm to tell them about the pension proposals and their implications for the public service schemes in their area. The attached note has been provided by Superannuation Division.



S J FLANAGAN

GENERAL NOTES

1. As part of Budget package to simplify and permit greater flexibility in pension rules (and lift administrative burden from employers and pensions managers), intend to withdraw tax advantage from pension benefits arising from earnings in excess of £60,000. Cap will be index linked. Applies to new schemes introduced after Budget day, and to new members of existing pension schemes after an "appointed" day (1 June). Existing members of existing schemes will be unaffected.

2. Change means - in respect of earnings over £60,000 only -

- no tax relief on employee or employer contributions
- no tax-free build up of pension fund
- lump sum benefits will be taxed.

3. Finance Act will override private sector and local government scheme rules. Statutory public service scheme rules need amending - and "appointed" day delayed until 1 June to allow for this. Seeing all main public service Ministers so they can have scheme amendments made in time. All need to give priority to legal and procedural aspects of amending their schemes.

4. Scope for top-up schemes (without tax privilege) to provide benefits on earnings over £60,000. Nature of top-up schemes for public services to be decided - but should follow, not lead, private sector. Top-up for Board Members to be decided ad hoc, in light of private sector practice.

ACTION FOR MR HURD

Only Metropolitan Police Commissioner currently earns more than £60,000. But cap will apply at progressively lower levels over the years. Therefore need to amend police and fire schemes by 1 June to catch new recruits who may later earn over cap.

ACTION FOR MR RIFKIND

Have already spoken to Lord Mackay about English judiciary, Mr Ridley about local authorities, Mr Clarke about NHS and Mr Hurd about police and fire services. Changes to these schemes in England by 1 June should be reflected in changes to equivalent Scottish schemes. In case of judiciary, should also take opportunity to bring scheme into line with 1987 pension reforms which removed tax relief from private sector schemes offering less than 20-year fast accrual. Higher judiciary have 15-year accrual. Courts Bill will probably cover judges in Scotland and Northern Ireland as well as England and Wales.

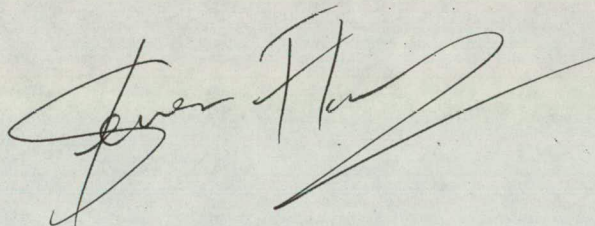
FROM: S J FLANAGAN
DATE: 7 March 1989

1. MR GILLHOOLY *2/13*
2. CHANCELLOR

cc Sir P Middleton
Mr Scholar
Mr Dixon
Mr Rayson
Mr Macpherson
Mrs Chaplin
Mr Tyrie

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FROM M C SCHOLAR
DATE 7 MARCH 1989

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Culpin
Mr Peretz
Mr Odling-Smee
Mr Riley
Mr Ilett

BUDGET: MINUTE TO PRIME MINISTER

I suggest that you add a paragraph on sterling capital market liberalisation to Mr Culpin's draft. I attach a draft. It could replace the existing paragraph 29.

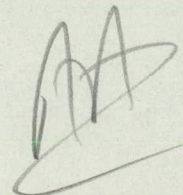
Mes

M C SCHOLAR

Ch

I think this is better added to MTF's note to PM (due soon when PSDR numbers produced)

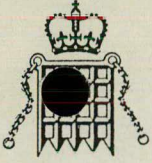
I agree.



Capital Markets liberalisation

I shall be announcing on Budget day a substantial liberalisation of the London sterling capital market. I am abolishing the queue for bond and equity issues which has been operated by the Bank of England since 1946, opening up the market for sterling paper and at the same time simplifying its regulatory regime. I am also making some consequential changes in the taxation of deep discount and other bonds. Taken together all these changes should give greater flexibility to those who issue capital in London; and wider choice to those who invest here.

BUDGET CONFIDENTIAL



H.M. CUSTOMS AND EXCISE
NEW KING'S BEAM HOUSE, 22 UPPER GROUND
LONDON SE1 9PJ
01-620 1313

PS/ECONOMIC SECRETARY

FROM: D A GAW

DATE: 8 MARCH 1989

*No detectable
loss = no loss
(Amus X)*

UNLEADED PETROL

EFFICIENCY DIFFERENTIAL

We have reported in recent papers that advice from the trade is that as far as the ordinary motorist is concerned there is no detectable loss in efficiency (after engine adjustment where required) between leaded petrol, of any grade, and unleaded.

Distribution:

PS/Chancellor
Sir P Middleton
Mr Culpin
Mr Gilhooly
Mr Michie
Miss Simpson
Mr Call

CPS
Mr Jefferson Smith
Mr Wilmott
Mr Allen
Mr Vernon
Mr Spackman

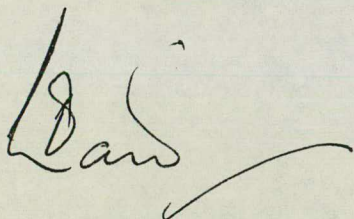
2. This advice from Vauxhall Motors is typical of trade opinion:

If unleaded is not available you can use ordinary four star. The significant factor is the octane rating which is 95 for unleaded; this being achieved by additives other than lead. Ordinary four star is 97 and two star at 91 octane is therefore not recommended as an alternative fuel.

Other sources have commented that users changing from two and three star to unleaded will notice some improvement in performance.

STOP PRESS

X | 3. BP today announced that at a limited number of locations they are to market "Super Green" 98 octane unleaded petrol in addition to their standard premium unleaded. "Super Green" is aimed at cars which run on four star and have engines which do not require lead for valve lubrication. BP say that this will enable cars such as Jaguar and many turbo-charged models to use unleaded for the first time.



D A GAW



FROM: MARK CALL
DATE: 8 MARCH 1989

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mrs Chaplin
Mr Tyrie

*Alex Presumably this is
a prayers de-brief,*

1. **POSTPONEMENT OF DISCOUNT RATE ANNOUNCEMENT**

Although an announcement after Easter would coincide with 2 days of debate on the Water Bill, there was never a perfect time, and that would be as good as any. The announcement would need very careful presentation, and should state clearly that the proposed rates were not high compared with the private sector.

2. **STATISTICAL DISCREPANCIES**

The Treasury exercise to revise the figures had been discontinued, and the Red Book will use the CSO figures. The Treasury exercise had not been a waste of time, since the CSO's knowledge of its existence had been an effective spur to rapid revision by the CSO. The 1986 and 1987 figures were now sufficiently good to obviate the need for a further exercise, though those for 1988 were more problematic. The CSO were still working on these. The CSO would not be told until Monday that the Treasury exercise had been stopped, and that the FSBR would use the CSO figures.

3. **TAX RELIEF FOR PRIVATE HEALTH INSURANCE**

John Isaac's note raised some questions of policy as well as that of whether or not a press release would be issued. The Chancellor's strong preference was that the details be resolved and that a press release be issued with the others.

Mc
MARK CALL



FROM: A C S ALLAN

DATE: 8 March 1989

A handwritten signature in blue ink, appearing to be 'A C S ALLAN'.

MR SCHOLAR

cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Culpin
Mr Odling-Smee
Mr Peretz
Mr Riley
Mr Ilett

BUDGET: MINUTE TO PRIME MINISTER

The Chancellor was grateful for your minute of 7 March. He feels the paragraph on sterling capital market liberalisation is probably better included in the draft minute to the Prime Minister on the MTFS etc., which Mr Riley is drafting. I should be grateful if he could include it there.

A large, stylized handwritten signature in black ink, clearly legible as 'A C S ALLAN'.

A C S ALLAN



Inland Revenue

Business Tax Division
Somerset House

FROM: J H REED

DATE: 8 MARCH 1989

1. MR MCGIVERN *OK 8/3*
2. FINANCIAL SECRETARY

COMPLIANCE COST ASSESSMENT - STARTER 206

I attach for your approval the compliance cost assessment for Starter 206.

JH
J H REED

cc PS/Chancellor
Mr Culpin
Mr Gieve
Mr Gilhooly
Mrs Chaplin
Mr Tyrie
Mr Call

Mr Isaac
Mr McGivern
Mr Bush
Mr Campbell
Mr Willis
Mr Reed
Ms St Quinton
Miss McFarlane
PS/IR

BUDGET CONFIDENTIAL



FROM: MALCOLM BUCKLER

DATE: 9 March 1989

MR C STEWART - IR

- cc **PS/Chancellor**
- PS/Chief Secretary
- PS/Financial Secretary
- PS/Economic Secretary
- Mr Scholar
- Mr Culpin
- Mr Gilhooly
- Mr Gieve
- Mrs Chaplin
- Mr Tyrie
- Mr Jenkins - OPC
- PS/Inland Revenue
- Mr Corlett - IR
- Mr Isaac - IR

STARTER 151: COVENANTED MEMBERSHIP OF SUBSCRIPTIONS TO CHARITIES

The Paymaster General was grateful for your submission of 7 March and has agreed the proposed Budget Day Press Release.

MALCOLM BUCKLER
Private Secretary



Inland Revenue

Savings and Investment Division
Somerset House

From: A J WALKER

Date: 10 March 1989

It will be well worthwhile - and bring a few "brownie points" -

- 1. MR KUCZYS
- 2. FINANCIAL SECRETARY

to have these Regs laid on Budget Day

AJW/K
10/3

PERSONAL EQUITY PLANS: REGULATIONS

- 1. You decided (your note of 5 January 1989) that the new plan year for PEPs should begin on 6 April 1989.
- 2. To enable this to happen, the Regulations bringing this and the other changes to PEPs into effect have to be made and laid before Parliament by Thursday, 16 March, at the latest. There is much to be said, however, for bringing the timetable forward a little so that PEP plan managers have the maximum possible amount of time to implement the changes. We therefore propose to arrange for the Regulations to be laid on Budget Day, after the Budget Statement.

and the press release says this
AJW

- c.c
- PS/Chancellor
 - PS/Chief Secretary
 - Mr Culpin
 - Mr Odling-Smee
 - Mr Gilhooly
 - Mr Ilett
 - Mr Neilson
 - Mr Dyer
 - Mrs Chaplin
 - Mr Tyrie

- Mr Isaac
- Mr Corlett
- Mr Bush
- Mr Cleave
- Mr Kuczys
- Mr Tomlinson
- PS/IR
- Mr Walker

3. In addition to introducing all the changes announced in the Budget, the Regulations provide for plans to continue on the existing basis for a transitional period, if desired. This will allow plan managers to operate on the basis of the current Regulations until, at the latest, 31 December if they have not managed to adjust their systems to operate the new Regulations by 6 April. It will also allow investors (subject to the terms of their contracts) to continue on the basis of the current Regulations until the end of 1989 if they wish.

4. I should be grateful for your agreement that the Regulations should be laid before Parliament on Budget Day.



A J WALKER

S T A T U T O R Y I N S T R U M E N T S

1989 No.

INCOME TAX

The Personal Equity Plan Regulations 1989

<u>Made</u>	<u>March 1989</u>
<u>Laid before the House of Commons</u>	<u>March 1989</u>
<u>Coming into force</u>	<u>6th April 1989</u>

ARRANGEMENT OF REGULATIONS

1. Citation and commencement
2. Interpretation
3. Introductory
4. General conditions for plans and subscriptions to plans
5. General investment rules
6. Qualifying investments
7. Qualifying individuals who may invest under a plan
8. Plan investor ceasing to qualify
9. Conditions for application to subscribe to a plan
10. Rights issues - relaxation of provisions of regulations 4 and 7
11. Plan manager - qualifications and Board's approval
12. Plan manager - withdrawal by Board of approval
13. Plan manager - appeal against withdrawal of Board's approval
14. Plan manager ceasing to act
15. Plan manager ceasing to qualify
16. Transfer of plans to other plan managers
17. Exemption from tax of plan income and gains
18. Tax liabilities and reliefs - plan manager to act on behalf of plan investor
19. Repayments in respect of tax to plan manager - interim claims
20. Repayments in respect of tax to plan manager - annual returns and annual claims
21. Plan manager's returns and claims - supplementary provisions
22. Assessments for withdrawing relief and recovering tax
23. Records to be kept by plan manager
24. Information to be given to plan investor by plan manager
25. Information to be provided to the Board
26. Inspection of records by officer of the Board
27. Capital gains tax - adaptation of enactments

28. Administration of tax in relation to plans - supplementary
29. Transitional provisions - plans and plan investors under the 1986 Regulations.

The Treasury, in exercise of the powers conferred upon them by section 333 of the Income and Corporation Taxes Act 1988(a) and section 149D of the Capital Gains Tax Act 1979(b), hereby make the following Regulations:-

Citation and commencement

1. These Regulations may be cited as the Personal Equity Plan Regulations 1989 and shall come into force on 6th April 1989.

Interpretation

2. (1) In these Regulations unless the context otherwise requires:-

- (a) "the Board" means the Commissioners of Inland Revenue;

"gains" means "chargeable gains" within the meaning of the Capital Gains Tax Act 1979;

"investment trust" has the same meaning as in section 842 of the Taxes Act;

"the Management Act" means the Taxes Management Act 1970(c);

"market value" shall be construed in accordance with section 150 of the Capital Gains Tax Act 1979;

"notice" means notice in writing and "notify" shall be construed accordingly;

"ordinary share" means a share which forms part of a company's ordinary share capital (within the meaning of section 832(1) of the Taxes Act);

a "plan investment" is an investment under a plan which is a qualifying investment within the meaning of regulation 6;

(a) 1988 c.1. (b) 1979 c.14; section 149D was inserted by paragraph 26 of Schedule 29 to the Income and Corporation Taxes Act 1988. (c) 1970 c.9.

a "plan investor" is an individual who subscribes to a plan and who is a qualifying individual within the meaning of regulation 7;

a "plan manager" is a person who fulfils the conditions of these Regulations and is approved by the Board for the purposes of these Regulations as a plan manager;

a "portfolio" is a portfolio of plan investments which are held under a plan;

"recognised stock exchange" has the same meaning as in section 841 of the Taxes Act;

"share" includes stock;

"tax" where neither income tax nor capital gains tax is specified means either of those taxes;

"tax credit" means a credit under section 231 of the Taxes Act;

"year" means a year beginning with 6th April in any year and ending with 5th April in the following year;

"the Taxes Act" means the Income and Corporation Taxes Act 1988;

"the 1986 Regulations" means the Personal Equity Plan Regulations 1986(a).

(b) "authorised unit trust" means a unit trust scheme in the case of which an order under section 78 of the Financial Services Act 1986(b) is in force and which is an authorised securities scheme within the meaning of the Authorised Unit Trust Scheme (Investment and Borrowing Powers) Regulations 1988(c);

"unit holder" means a person entitled to a share of the investments subject to the trusts of a unit trust scheme;

"unit trust scheme" has the same meaning as in section 469 of the Income and Corporation Taxes Act 1988;

and references to a "unit" include references to a fraction of a unit.

(a) S.I. 1986/1948; amended by S.I. 1987/2128, S.I.1988/657 and S.I. 1988/1348. (b) 1986 c.60. (c) S.I. 1988/284.

- (2) The Table below indexes other definitions in these Regulations:

<u>Term defined</u>	<u>Regulation</u>
Annual claim	20
Interim claim	19
Plan	4(1)
Qualifying individual	7
Qualifying investments	6
Subscription limit	4(4)

Introductory

3. These Regulations provide -

- (a) for the setting up of plans by plan managers approved by the Board under which individuals may make certain investments, for the conditions under which they may invest and under which those plans are to operate, for relief from tax in respect of plan investments and generally for the administration of tax in relation to plans, and
- (b) for transitional arrangements in respect of plans and plan investors under the 1986 Regulations.

General conditions for plans and subscriptions to plans

4. (1) A plan is a scheme of investment to which an individual who is a qualifying individual may subscribe and in respect of which (subject to regulation 10) the following conditions must be fulfilled -

- (a) a qualifying individual may subscribe to only one plan in any year;
- (b) subject to paragraph (2) -
 - (i) the individual may not subscribe to a plan otherwise than by means of a sum or sums of his cash paid directly to the plan manager; and
 - (ii) the individual's cash subscription may not exceed the subscription limit in any year.

(2) Where, in pursuance of a public offer an application is made by a qualifying individual for the allotment to him of shares of a company which are qualifying investments and such shares are allotted to that individual, he may, subject to the conditions prescribed by paragraph (3), subscribe to a plan by transferring or renouncing his rights to any shares so allotted to the plan manager or a nominee for the plan manager.

- (3) The conditions prescribed by this paragraph are -

- (a) that the shares are transferred, or the rights to the shares are renounced, within 30 days of their allotment to the individual;
 - (b) that any sum payable on such an application and the individual's cash subscription to the plan do not together exceed the subscription limit in any year.
- (4) The subscription limit for the purposes of these Regulations is £4,800.
- (5) A plan must be managed in accordance with these Regulations by a plan manager and under terms agreed in writing between the plan manager and the plan investor.
- (6) Apart from other requirements of these Regulations the terms agreed to which paragraph (5) refers shall include the following conditions -
- (a) that the plan investments shall be in the beneficial ownership of the plan investor;
 - (b) that the title to the plan investments shall be vested in the plan manager or his nominee or jointly in one of them and the plan investor;
 - (c) that the share certificate or other document evidencing title to a plan investment shall be held by the plan manager or as he may direct;
 - (d) that the plan manager shall, if the plan investor so elects, arrange for the plan investor to receive a copy of the annual report and accounts issued by every company or other concern in respect of shares or units (as the case may be) which are his plan investments;
 - (e) that the plan manager shall be under an obligation (subject to any provisions made by or under any other enactment and if the plan investor so elects) to arrange for the plan investor to be able -
 - (i) to attend shareholders' or unit holders' meetings,
 - (ii) to vote, and
 - (iii) to receive, in addition to the documents referred to in paragraph (d) above, any other information issued to shareholders or unit holders;
 - (f) that at the request of the plan investor and within such time as shall be agreed an entire plan

with all rights and obligations of the parties to it may be transferred to another plan manager;

- (g) that the plan manager shall notify the plan investor if by reason of any failure to satisfy the provisions of these Regulations a plan has or will become void.

General investment rules

5. (1) All transactions whether by way of sale, purchase or otherwise by a plan manager in investments under a plan shall be made at the price which those investments might reasonably be expected to fetch in the open market.

(2) Investments, or rights in respect of investments, may not at any time -

- (a) be purchased or made otherwise than out of cash which a plan manager holds (and is entitled under the provisions of these Regulations to hold) under a plan at that time; or

(b) be purchased from -

(i) a plan investor, or

(ii) the spouse of a plan investor,

so as to become plan investments under a plan to which the plan investor subscribes or has subscribed.

(3) A plan investor's cash subscription and any other cash held by a plan manager which he is entitled to hold under a plan shall be held only in sterling and be deposited with a deposit-taker or a building society in circumstances where -

- (a) the deposit-taker is liable to account for and pay an amount representing income tax on payments of interest in respect of the deposit calculated by applying the composite rate to the grossed-up amount of the payments in accordance with the provisions of section 479 of the Taxes Act, or

- (b) the reduced rate amount payable by the building society under Regulation 3 of the Income Tax Building Society Regulations 1986(a) includes an amount calculated in accordance with those Regulations by applying the reduced rate there referred to to the grossed-up amount of dividends or interest paid in respect of the deposit,

and in either case the deposit is designated for the purposes of these Regulations only.

(a) S.I. 1986/482; amended by S.I. 1987/844 and S.I. 1988/1011.

(4) Subject to paragraph (5), cash by way of dividends, other rights or proceeds in respect of shares, not being shares in an investment trust, which are held as plan investments may be invested only by way of cash deposit or in other such shares.

(5) Cash referred to in paragraph (4) may be invested in an authorised unit trust or in an investment trust provided that immediately after such an investment is made the total market value of plan investments in authorised unit trusts and investment trusts does not exceed one half of the market value of the portfolio.

Qualifying investments

6. (1) This regulation specifies the kind of investments ("qualifying investments") which may be purchased, made or held under a plan.

(2) Qualifying investments to which paragraph (1) refers are -

(a) ordinary shares, not being shares in an investment trust, issued by a company which is incorporated in the United Kingdom and quoted in the official list of a recognised stock exchange in the United Kingdom or dealt in on the Unlisted Securities Market;

(b) subject to the conditions specified in paragraph (3), investments in -

(i) an authorised unit trust, or

(ii) an investment trust;

(c) cash which the plan manager is entitled to hold for investment under a plan.

(3) The conditions specified in this paragraph are -

(a) that the total amount of the cash subscription to the plan invested in authorised unit trusts and investment trusts in any year does not exceed one half of the subscription limit; and

(b) that on and after 6th April 1990 at least 75 per cent. in value of the investments subject to the trusts of a unit trust scheme which is an authorised unit trust or held by an investment trust are qualifying investments within paragraph (2)(a).

Qualifying individuals who may invest under a plan

7. (1) This regulation specifies the description of individual who may invest under a plan ("qualifying individual").

(2) A qualifying individual to whom paragraph (1) refers is an individual -

- (a) who is 18 years of age or over,
- (b) who (subject to regulation 10) has not subscribed to any other plan during the year for which he makes an application under regulation 9, and
- (c) (i) who is resident and ordinarily resident in the United Kingdom, or
(ii) who, though non-resident, performs duties which by virtue of section 132(4)(a) of the Taxes Act (Crown employees serving overseas) are treated as being performed in the United Kingdom.

Plan investor ceasing to qualify

8. Notwithstanding any other provision of these Regulations a plan investor who, after subscribing to a plan, at any time ceases to fulfil the conditions of regulation 7(2)(c) may retain the benefits of the plan (including the right to any relief or exemption due under the plan) subsisting at that time but, so long as he fails to fulfil those conditions, shall not be entitled to subscribe further to such a plan.

Conditions for application to subscribe to a plan

9. (1) An application by an individual to subscribe to a plan must be made to a plan manager in a statement in writing and fulfil the conditions specified in paragraphs (2), (3) and (4).

(2) An application must specify the year for which the applicant is to subscribe to a plan.

(3) An application shall provide for a declaration by the applicant that the applicant -

- (a) is 18 years of age or over;
- (b) fulfils the conditions of regulation 7(2)(b) and (c);
- (c) has made no other application to subscribe to another plan in the year to which paragraph (2) refers;
- (d) authorises the plan manager in writing -

- (i) to hold the applicant's cash subscription, plan investments, interest, dividends and any other rights or proceeds in respect of those investments and any other cash;
 - (ii) to make on his behalf any claims to relief from tax in respect of plan investments;
 - (iii) on the applicant's written request to transfer or pay to him, as the case may be, plan investments, interest, dividends, rights or other proceeds in respect of such investments or any cash.
- (4) An application must contain -
- (a) the applicant's full name,
 - (b) his permanent address,
 - (c) his national insurance number, and
 - (d) where he knows it, his tax office reference.
- (5) A plan manager may not accept as a plan investor any individual if he has reason to believe that -
- (a) he is not or might not be a qualifying individual, or
 - (b) he has given untrue information in his application.
- (6) Section 95 of the Management Act shall have effect as if -
- (a) the statement and declaration to which paragraphs (1) and (3) refer were a statement or declaration, as the case may be, within the meaning of subsection (1)(b), and
 - (b) there were substituted for subsection (3) the following words -
- "(3) The relevant years of assessment for the purposes of this section are the year of assessment in respect of which any claim to relief from tax, in connection with which the statement or declaration is relevant, is made, the next following, and any preceding year of assessment."

Rights issues - relaxation of provisions of regulations 4 and 7

10. (1) This regulation prescribes the circumstances in which -

- (a) notwithstanding regulations 4(1)(a) and 7(2)(b) an individual may subscribe to more than one plan in any year, and
- (b) notwithstanding regulation 4(1)(b) or (2) an individual's cash subscription to a plan in any year may exceed the subscription limit.

(2) The prescribed circumstances are circumstances in which -

- (a) on the occasion of a new issue of shares a plan manager is entitled, by virtue of a plan investor's beneficial ownership of shares which are plan investments (in this regulation referred to as "original shares"), to subscribe for shares (in this regulation referred to as "new shares") (being qualifying investments) which are offered to shareholders in proportion to (or as nearly as may be in proportion to) their shareholdings; and
- (b) the conditions contained in paragraph (3) are fulfilled.

(3) The conditions to which paragraph (2) refers are -

- (a) that the plan investor -
 - (i) was the beneficial owner of the original shares at the end of the day immediately before that on which the right to subscribe for the new shares was announced; and
 - (ii) subscribes cash not exceeding the total sum payable to acquire the new shares (in this regulation referred to as "the rights subscription"); and
- (b) that the rights subscription shall -
 - (i) be expended only on a subscription for new shares to which paragraph (2) refers, and
 - (ii) to the extent that it is not so expended, be transferred to the plan investor together with interest (if any) thereon within 14 days after the date by which the rights subscription is payable by the plan manager under the terms of the offer to subscribe for the new shares.

Plan manager - qualifications and Board's approval

11. (1) This regulation specifies the circumstances ("qualifying circumstances") in which a person may be approved by the Board as a plan manager.

(2) The qualifying circumstances to which paragraph (1) refers are the following -

- (a) the person must make written application to the Board for approval in a form prescribed by the Board;
- (b) a plan manager must be an authorised person within the meaning of Chapter III of Part I of the Financial Services Act 1986(a) ("the 1986 Act"); and
- (c) a plan manager must not be prevented from acting as such by any prohibition by or under rules under section 48 of the 1986 Act, by or under the rules of any recognised self-regulating organisation of which the plan manager is a member, or by or under the rules of any recognised professional body by which the plan manager is certified, or by a prohibition imposed under section 65 of the 1986 Act.

(3) The terms of the Board's approval may include conditions designed to ensure that the provisions of these Regulations are satisfied.

Plan manager - withdrawal by Board of approval

12. (1) This regulation specifies the circumstances ("the disqualifying circumstances") in which the Board may by notice withdraw their approval of a person as a plan manager in relation to a plan.

(2) The disqualifying circumstances to which paragraph (1) refers are that the Board have reason to believe -

- (a) that any provision of these Regulations is not or at any time has not been satisfied in respect of a plan managed by the plan manager; or
- (b) that a person to whom they have given approval to act as a plan manager is not qualified so to act.

(3) The notice to which paragraph (1) refers shall specify -

- (a) the date from which the Board's approval is withdrawn, and
- (b) the disqualifying circumstances.

Plan manager - appeal against withdrawal of Board's approval

13. (1) A plan manager to whom notice of withdrawal of approval has been given under regulation 12 may appeal against the withdrawal by notice given to the Board within 30 days after the date of the notice of withdrawal.

(2) The appeal shall be to the Special Commissioners.

(3) The like provisions as are contained in Part V of the Management Act (appeals and other proceedings)(a) shall apply to an appeal and the Special Commissioners shall on appeal to them confirm the notice unless they are satisfied that the notice ought to be quashed.

Plan manager ceasing to act

14. A person shall give notice to the Board and to the subscriber to the plan which he manages of his intention to cease to act as the plan manager within a reasonable time before he so ceases so that his obligations to the Board under the plan can be conveniently discharged at or about the time he ceases so to act.

Plan manager ceasing to qualify

15. A person shall cease to qualify as a plan manager and shall notify the Board forthwith of that fact where -

- (a) the person no longer fulfils the conditions of regulation 11;
- (b) in the case of an individual, he becomes bankrupt or, in Scotland, his estate is sequestrated, or makes any arrangement or composition with his creditors generally; or
- (c) in the case of a company a resolution has been passed or a petition has been presented to wind it up.

Transfer of plans to other plan managers

16. Where arrangements are made by a plan investor to transfer a plan or plans to another plan manager ("the transferee") the transfer shall have effect and a plan shall not be otherwise affected for the purpose of these Regulations by the occasion of transfer, provided that the plan manager making the transfer ("the transferor") has given notice to the Board of the transfer together with the following information -

- (a) (i) the name, address and tax office reference of the transferor;

(a) 1970 c.9.

- (ii) the name, address and tax office reference of the transferee;
 - (iii) the effective date of transfer;
 - (iv) details of plan investors whose plans are being transferred to the transferee showing names, addresses, national insurance numbers and tax office references;
 - (v) details of plan investors who are to withdraw plan investments.
- (b) A declaration by the transferor that he has fulfilled all his obligations to plan investors, to the Board or otherwise, which are imposed by these Regulations.

Exemption from tax of plan income and gains

17. Subject to these Regulations, except interest in respect of plan investments which is not reinvested but is paid to or at the direction of the plan investor or otherwise applied for his benefit, no tax shall be chargeable on the plan manager or his nominee or the plan investor in respect of interest, dividends or gains in respect of plan investments, losses in respect of plan investments shall be disregarded for the purposes of capital gains tax, and relief in respect of tax shall be given in the manner and to the extent provided by these Regulations.

Tax liabilities and reliefs - plan manager to act on behalf of plan investor

18. (1) A plan manager may under these Regulations make claims, conduct appeals and agree on behalf of the plan investor liabilities for and reliefs from tax in respect of a plan.

(2) Claims shall be made to the Board in accordance with the provisions of regulations 19 and 20.

(3) Where any relief or exemption from tax previously given in respect of a plan has by virtue of these Regulations become excessive, in computing the relief due on any claim there shall be deducted, so that amounts equal to that excess are set-off or repaid to the Board, as the case may be, notwithstanding that those amounts have been invested -

- (a) any amount repaid in respect of a tax credit;
- (b) any other amount due to the Board by a plan manager in respect of any tax liability in respect of investments under a plan including (but without prejudice to the making of an assessment under the provisions of that section) any amount falling due

in respect of a liability under section 737 of the Taxes Act(a).

(4) Any amount deducted under paragraph (3) shall be treated as an amount of income tax deducted at source and not repayable within the meaning and for the purposes of section 95(2)(a) of the Management Act.

Repayments in respect of tax to plan manager - interim claims

19. (1) Notwithstanding the provisions of any other enactment, the Board shall not be under an obligation to make any repayment in respect of tax under these Regulations earlier than the end of the month following the month in which the claim for the repayment is received.

(2) A claim for repayment in respect of tax which is not an annual claim ("interim claim") may be made only for a period of a month (or a number of months not exceeding six) beginning on the 6th day of the month and ending on the 5th day of the relevant following month.

(3) No claim for repayment may be made for the month ending 5th October or any subsequent month until the annual return due in respect of a plan for the preceding year has been duly made by the plan manager and received by the Board.

(4) Where, on the occasion of a claim, there is due to the Board an amount in respect of tax that amount shall be recoverable by the Board in the same manner as tax charged by an assessment on the plan manager which has become final and conclusive.

Repayments in respect of tax to plan manager - annual returns and annual claims

20. (1) An annual claim is a claim for repayment in respect of tax for a year and may not be made at any time more than six years after the end of the year.

(2) A plan manager shall within six months after the end of the year make a return of all income and in addition an annual claim to establish the total of repayments due under a plan for that year.

(3) Where the aggregate of the repayments in respect of interim claims for the year shown by an annual claim exceeds the amount repayable for the year shown on the claim, the plan manager shall repay the amount of the excess to the Board with the claim.

(a) 1988 c.1.

(4) If a plan manager fails to make the return and the annual claim required under this regulation within the time limited, the Board may issue a notice to the plan manager showing the aggregate of payments in respect of the interim claims for the year, and stating that the Board are not satisfied that the amount due to the plan manager for that year exceeds the lower amount stated in the notice.

(5) If a return and an annual claim are not delivered to the Board within 14 days after the issue of such a notice under paragraph (4) the amount of the difference between the aggregate and the lower amount stated in the notice shall immediately be recoverable by the Board in the same manner as tax charged by an assessment on the plan manager which has become final and conclusive.

(6) Where a return and an annual claim have been made and the plan manager subsequently discovers that an error or mistake has been made in the return or claim the plan manager may make a supplementary return or annual claim within the time allowed in paragraph (1).

Plan manager's returns and claims - supplementary provisions

21. (1) Section 42 of the Management Act(a) shall not apply to claims under these Regulations.

(2) No appeal shall lie from the Board's decision on an interim claim.

(3) An appeal shall be to the Special Commissioners from the Board's decision on an annual claim, and the appeal shall be brought by giving notice to the Board within 30 days of receipt of notice of the decision.

(4) No payment or repayment made or other thing done on or in relation to an interim claim or a notice under regulation 20(4) shall prejudice the decision of an annual claim.

(5) The like provisions as are contained in Part V of the Management Act (appeals and other proceedings) shall apply to an appeal under paragraph (3) above, and on an appeal the Special Commissioners may vary the decision appealed against whether or not the variation is to the advantage of the appellant.

(6) All such assessments, payments and repayments shall be made as are necessary to give effect to the Board's decision on an annual claim or to any variation of that decision on appeal.

(7) Returns and claims under these Regulations shall be in such form and contain such particulars as the Board prescribe and shall be signed by the plan manager; and forms prescribed for annual claims may require a report to be given by a person qualified for appointment as auditor of a company.

(a) 1970 c.9.

Assessments for withdrawing relief and recovering tax

22. (1) Where -

- (a) any relief or exemption from tax given in respect of income or gains under a plan is found not to be due or to be excessive, or
- (b) where the full amount of tax in respect of the income or gains under a plan has not otherwise been fully accounted for and paid to the Board by or on behalf of the plan investor,

an assessment to tax may be made by the Board in the amount or further amount which in their opinion ought to be charged.

(2) An assessment to which paragraph (1) refers may be made on the plan manager or on the plan investor.

(3) If the assessment is made to recover tax in respect of income (including any amount in respect of a tax credit) under a plan it shall be made under Case VI of Schedule D.

Records to be kept by plan manager

23. (1) A plan manager shall at all times keep sufficient records in respect of a plan to enable the requirements of these Regulations to be satisfied.

(2) The records shall include a valuation of plan investments at their market value as at 5th April each year.

Information to be given to plan investor by plan manager

24. (1) Where under the terms of a plan a plan manager has discretion to purchase or sell investments he shall give to the plan investor once in every year a statement in writing of his reasons for -

- (a) making a purchase or sale within, and
- (b) retaining any investment throughout,

the period.

(2) A plan manager who makes a payment to a plan investor out of or in respect of which tax has been deducted shall, if the investor so requests in writing, furnish the investor with a statement in writing showing the gross amount of the payment, the amount deducted and the amount actually paid.

(3) On the transfer to a plan investor of a plan investment the plan manager shall provide for the investor details in writing of the market value on the date of transfer.

Information to be provided to the Board

25. The Board may by notice require any person who is or who at any time has been a plan manager or plan investor to furnish them, within such time (not being less than 14 days) as may be provided by the notice, such information about any plan or about any plan investment (including copies of or extracts from any books or other records) as they may reasonably require for the purposes of these Regulations.

Inspection of records by officer of the Board

26. (1) The Board may by notice require any person who is or who at any time has been a plan manager or plan investor, within such time (not being less than 14 days) as may be provided in the notice, to make available for inspection by an officer of the Board authorised for that purpose all documents (including books and other records) in his possession or under his control containing information relating to any plan or to any plan investment.

(2) Where records are maintained by computer the person required to make them available for inspection shall provide the officer making the inspection with all the facilities necessary for obtaining information from them.

Capital gains tax - adaptation of enactments

27. (1) For the purposes of capital gains tax on the occasion when the title to plan investments is transferred from a plan manager to a plan investor there shall be deemed to be a disposal and reacquisition by him of those investments for a consideration equal to their market value.

(2) For the pooling of plan investments for the purposes of Part III of Schedule 19 to the Finance Act 1985(a) Part III shall apply for the purposes of these Regulations with the substitution for paragraph 8(2) of the following words -

"(2) This Part of this Schedule shall apply separately to any securities which are plan investments under a plan within the meaning of the Personal Equity Plan Regulations 1989 and, while applying separately to any such securities, this Part of this Schedule shall have effect as if the plan investor held them in a capacity other than that in which he holds any other securities of the same class whether under another plan or otherwise."

(3) Sections 78 to 81 of the Capital Gains Tax Act 1979(b) shall not apply in relation to ordinary shares which are held under a plan if there is by virtue of any allotment for payment as is mentioned in section 77(2) of that Act a reorganisation affecting those shares.

(a) 1985 c.54. (b) 1979 c.14.

Administration of tax in relation to plans - supplementary

28. (1) Nothing in these Regulations shall be taken to prejudice any powers conferred or duties imposed by or under any enactment in relation to the making of returns of income or gains, or for the recovery of tax, penalties or interest by means of an assessment or otherwise.

(2) Notwithstanding the provisions of these Regulations a plan manager shall not be released from obligations under these Regulations in relation to a plan except under conditions agreed in writing with and notified to that person by the Board.

(3) Subject to the provisions of these Regulations the like provisions as are contained in the Management Act shall apply to any assessment of tax under these Regulations as if it were an assessment of tax for the year in which, apart from these Regulations, the plan investor would have been liable (by reason of his ownership of the investments) and as if -

(a) the assessment were an assessment specified in sections 55(1) (recovery of tax not postponed) and 86(2) (interest on tax), and

(b) the sum charged by the assessment were tax specified in the Table in section 86(4) (reckonable date for interest).

(4) The like provisions as are contained in section 97(1) of the Management Act shall apply as if -

(a) there were inserted after the words "sections 95 and 96 above" the words "or the Personal Equity Plan Regulations 1989", and

(b) there were inserted after the words "that they were" the words "or have become".

(5) Any form prescribed by the Board for the purposes of these Regulations shall provide for a declaration that all the particulars given in the form are correctly stated to the best of the knowledge and belief of the person concerned.

(6) No obligation as to secrecy imposed by statute or otherwise shall preclude the Board from disclosing to a plan manager or plan investor that any provision of these Regulations has not been satisfied or that relief has been given or claimed in respect of investments under a plan.

Transitional provisions - plans and plan investors under the 1986 Regulations

29. (1) The 1986 Regulations shall continue to apply to annual plans, notwithstanding the entry into force of these

Regulations, during the period from 6th April 1989 until the effective date in relation to any such plan, with the modification that the year which began with 1st January 1989 shall be treated as having ended on the effective date.

(2) With effect from the day following the effective date in relation to an annual plan, ~~the plan shall be treated as if it had been set up after the entry into force of these Regulations and~~ the provisions of these Regulations shall accordingly apply to it from that day in place of the provisions of the 1986 Regulations.

(3) A plan investor who has subscribed to an annual plan during the year which began with 1st January 1989 may not before the day following the effective date in relation to the plan -

(a) subscribe further to the plan if that subscription and any previous subscription to the plan for that year would together exceed the limit prescribed by Regulation 4(1)(c) of the 1986 Regulations, or

(b) subscribe to a plan under regulation 4 of these Regulations.

(4) These Regulations apply to any plan to which a qualifying individual who was a plan investor in respect of an annual plan subscribes in the period from the day following the effective date until 5th April 1990 as if that period were a year for the purpose of these Regulations.

(5) In this regulation -

"annual plan" means a plan to which the 1986 Regulations applied immediately before the entry into force of these Regulations; and

"effective date" in relation to a plan means the date which is the earlier of -

(a) 31st December 1989, and

(b) the date, being a date after 5th April 1989, which -

(i) the plan investor and the plan manager agree in writing, or

(ii) where the terms of the agreement between them permit, the plan manager determines,

to be the date after which the provisions of these Regulations shall apply to the plan in place of the provisions of the 1986 Regulations.

March 1989. Two of the Lords Commissioners of Her Majesty's Treasury

EXPLANATORY NOTE

(This Note is not part of the Regulations)

These Regulations amend and consolidate the Personal Equity Plan Regulations 1986 (as amended by the Personal Equity Plan (Amendment) Regulations 1987, the Personal Equity Plan (Amendment) Regulations 1988 and the Personal Equity Plan (Amendment No.2) Regulations 1988) ("the 1986 Regulations") with effect from 6th April 1989. The principal amendments of the scheme under the 1986 Regulations are the abolition of the cash investment limit, together with the requirement that interest on amounts deposited with a building society or a deposit taker be paid gross, and the abolition of the minimum holding period and consequently the concept of the mature portfolio.

The Regulations also provide for an increase in the amount of the cash subscription in any year, for shares allotted in pursuance of a public offer to be subscribed to a plan, for changing from a calendar year to a tax year basis, for switching plan investments from shares into authorised unit trusts and investment trusts, for a reduction in the amount of information to be supplied by a plan manager to a plan investor and for transitional arrangements in respect of plans and plan investors under the 1986 Regulations.

On and after 6th April 1990, the Regulations provide a new rule that an authorised unit trust or an investment trust in which plan investments are held must itself have at least 75 per cent. in value of its investments in shares of companies incorporated in the United Kingdom which are quoted shares or shares dealt in on the Unlisted Securities Market.

Regulation 1 provides for the title to and commencement of the Regulations.

Regulation 2 provides definitions.

Regulation 3 gives a general introduction.

Regulation 4 sets out general conditions for plans and subscriptions to plans.

Regulation 5 provides general rules for investment in plans.

Regulation 6 specifies permitted kinds of investment.

Regulation 7 specifies the description of individuals who may be plan investors.

Regulation 8 provides for consequences when certain individuals become disqualified.

Regulation 9 provides conditions for individual applications.

Regulation 10 provides for relaxation of the provisions of regulations 4 and 7 in respect of rights issues.

Regulation 11 provides for approval of plan managers by the Board.

Regulation 12 provides for the withdrawal of that approval in certain circumstances.

Regulation 13 provides for an appeal against such a withdrawal.

Regulation 14 requires a person to notify the Board and investors when ceasing to be a plan manager.

Regulation 15 provides circumstances in which a person shall cease to qualify as a plan manager.

Regulation 16 provides for transfers of plans from one to another plan manager.

Regulation 17 sets out the tax exemptions for plan investors.

Regulation 18 provides that the plan manager shall act on behalf of the plan investor in respect of tax reliefs and liabilities under the plan.

Regulations 19, 20 and 21 provide for claims for relief and for returns.

Regulation 22 makes provision for the withdrawal of relief and the recovery of tax.

Regulation 23 provides for the keeping of plan records.

Regulation 24 provides for information and for a certificate of tax deducted to be given by plan managers to investors.

Regulations 25 and 26 empower the Board to obtain information and to inspect records.

Regulation 27 adapts statutory capital gains tax provisions in relation to plans.

Regulation 28 makes supplementary provisions for tax administration in relation to plans.

Regulation 29 contains transitional arrangements for plans and plan investors under the 1986 Regulations.

Susan 01.13.3.89

BUDGET CONFIDENTIAL

PWP



FROM: MISS S J FEEST
DATE: 13 March 1989

MR A J WALKER - IR

cc

PS/Chancellor
PS/Chief Secretary
Mr Culpin
Mr Odling-Smee
Mr Gilhooly
Mr Ilett
Mr Neilson
Mr Dyer
Mrs Chaplin
Mr Tyrie
Mr Kuczys - IR
PS/IR

PERSONAL EQUITY PLANS: REGULATIONS

The Financial Secretary was grateful for your minute of 10 March 1989 and is content for the Regulations to be laid on Budget Day after the Budget Statement.

A large, stylized handwritten signature of Susan Feest, consisting of a large 'S' followed by 'Susan'.

SUSAN FEEST

FROM: M J NEILSON

DATE: 10 March 1989

ECONOMIC SECRETARY

cc: Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Sir P Middleton
Mr Monck
Mr Scholar
Mr Peretz
Mr Odling-Smee
Mr Ilett
Miss O'Mara
Mr Pirie
Mr Kroll
Mr Dyer
Mr Sharples
Mrs Ryding
Mr Gregory T Sol
Mr Townend BoE

STERLING COMMERCIAL PAPER : BANKING ACT EXEMPTION REGULATIONS

As I explained in my minute of 8 March we are now in a position to lay, on Budget Day, the Banking Act Exemption Regulations on Sterling Commercial Paper (SCP). I attach a final draft for your approval,

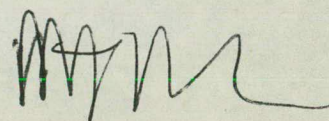
2. The main changes are set out in the explanatory memorandum. This regulation only makes changes to the sterling commercial paper regime - a further regulation will be needed in the Autumn, to coincide with Royal Assent on the Companies Bill, bringing the regime for short term corporate bonds into line with that for sterling commercial paper.

3. A number of points are worth noting:

- The regulations now refer to "unlisted companies" (which encompasses private companies) instead of private companies. This is so that firms on the Unlisted Securities Market and the Third Market can issue SCP, provided they have minimum assets of £25 million. We concluded that it would be inconsistent to extend the regime to private companies, (provided they comply with

disclosure requirements) and not to the USM or the Third Market, which are already subject to strict disclosure requirements. Are you content with this?

- We have had some difficulty in defining, unambiguously, the sorts of overseas public sector body that may now issue SCP. We have settled on the term "overseas public authority" in paragraph a(ii) of new regulation 13. It is not certain that this covers all possible types of overseas parastatal, but Treasury Solicitor advises us that there is no more certain term available. If potential parastatal issuers, who do not appear to fall within the exemption, approach the Bank, we can consider amending it in the regulations to be laid in the Autumn.
- Nationalised industries have always been excluded from issuing SCP, on the grounds that they can borrow more cheaply from the National Loans Fund. Both FIM and PE see no reason to change this policy. But because the scope of the exemption has been extended beyond listed companies we need to make clear that the exemption does not apply to Nationalised Industries. This is achieved in the first paragraph of new regulation 13 - "bodies listed in schedule 2 to those regulations" are Nationalised Industries.
- The schedule, which is very long, is closely based on the requirements that the Stock Exchange already impose on companies wishing to have their euro-currency debt securities listed in London. They should not therefore be either unfamiliar or over onerous.
- We have also taken the opportunity to do some tidying up to the list of nationalised industries that are allowed to take deposit from each other (paragraph 3 (a) and (b)).



M J NEILSON

EXPLANATORY NOTE

(This note is not part of the Regulations.)

These Regulations amend the Banking Act 1987 (Exempt Transactions) Regulations 1988.

First, they make changes to the exemption for sterling commercial paper. The main changes are as follows. The classes of person who can accept deposits under the exemption are widened to include companies whose shares or debt are traded on the Unlisted Securities Markets, other unlisted UK companies, overseas companies whose shares or debt are listed on certain overseas stock exchanges and overseas governments and public authorities whose debt is traded on The Stock Exchange or on certain overseas exchanges. Others may also issue sterling commercial paper if the paper is guaranteed by an institution authorised under the Banking Act 1987 or by a company whose shares or debt are listed or traded on the Official List of The Stock Exchange or on the Unlisted Securities Market. The minimum net asset requirement (which does not apply to overseas governments and public authorities) is reduced from £50 million to £25 million. The minimum denomination of sterling commercial paper is reduced from £500,000 to £100,000. Unlisted UK companies (whose shares or debt are not dealt in the Unlisted Securities Market) and companies whose shares or debt are listed or traded on overseas stock exchanges are required to disclose certain information set out in a new Schedule 3 to the Regulations.

Secondly, they amend the list of public undertakings in Schedule 2, the main changes being the deletion of references to the British Steel Corporation and the insertion of references to London Regional Transport, the Post Office and to successors to the generating boards.

STATUTORY INSTRUMENTS

1989 No.

BANKS AND BANKING

The Banking Act 1987 (Exempt Transactions)
(Amendment) Regulations 1989

Made	1989
Laid before Parliament	1989
Coming into force	1989

The Treasury, in exercise of the powers conferred upon them by section 4(4), (5) and (6) of the Banking Act 1987 (a) and of all other powers enabling them in that behalf, hereby make the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Banking Act 1987 (Exempt Transactions) (Amendment) Regulations 1989 and shall come into force on 1989.

(a) 1987c.22.

Interpretation

2. In these Regulations "the principal Regulations" means the Banking Act 1987 (Exempt Transactions) Regulations 1988 (a).

Amendment of principal Regulations

3. The principal Regulations shall be amended as follows:

(a) in regulation 1(2) of the principal Regulations -

(i) by inserting after the definition of "exempt transaction" the following new definition -

" "financial year" has the meaning ascribed to it by section 742 of the Companies Act 1985";

(ii) by inserting after the definition of "the Official List" the following new definition -

" "Recognised Overseas Exchange" means an exchange, market place or association for the time being included in the list published by the Council for the purposes of rule 535.4a of the Rules of the Stock Exchange (foreign ^{permitted} ^{dealings} ⁱⁿ ~~equity securities~~) (or any ~~such~~ ^{of the Stock Exchange} rule having substantially the same effect) (b);";
and

(iii) by substituting for the definition of "successor to the British Steel Corporation" the following new definition -

" "successor", in relation to a body, means any company in which property, rights and liabilities of the body shall have become vested by virtue of an Act; and";

(a) S.I. 1988/646.

(b) The list and the Rules may be obtained from the Quotations Department, The Stock Exchange, London EC2N 1HP.

(b) in regulation 10(2) by deleting the words "to the British Steel Corporation";

(c) by substituting for regulation 13 of the principal Regulations the following new regulation -

"13. The acceptance of a deposit by a person (not being a body listed in Schedule 2 to these Regulations) on terms involving the issue of any sterling commercial paper is an exempt transaction if -

(a) the person accepting the deposit is -

(i) a company whose shares or debt securities have been admitted to the Official List (and are not the subject of a notice issued by the Council cancelling or suspending the listing or suspending dealings) or are dealt in on the Unlisted Securities Market (and are not the subject of a Council notice cancelling or suspending dealings); or

(ii) a company not falling within sub-paragraph (a)(i) above which is incorporated in the United Kingdom ~~or a company~~ whose shares or debt securities have been admitted to listing on a Recognised Overseas Exchange (and are not the subject of official action taken in accordance with the rules of the Recognised Overseas Exchange cancelling or suspending the listing or suspending dealings), ~~and~~ which has complied with the requirements of Schedule 3 to these Regulations; or

(iii) the government of any country or territory, or a public authority, outside the United Kingdom the debt securities of which are admitted to trading on The Stock Exchange or on a Recognised Overseas Exchange (and are not the subject of a notice issued by the Council or official ~~a~~ action taken in accordance with the rules of the Recognised Overseas Exchange (as the case may be) cancelling or suspending the admission to trading or suspending dealings); or

(iv) a person who does not fall within sub-paragraphs (a)(i) to (iii) above, if either a ^{company which} ~~person who~~ falls within sub-paragraph a(i) or an authorised institution has guaranteed to the holder of the sterling commercial paper the repayment of the principal and the payment of any interest or premium in connection therewith;

(b) in the case of a company falling within sub-paragraph (a)(i) or (ii) above, its net assets_x or, in the case of a person falling within sub-paragraph (a)(iv) above where the guarantor is not an authorised institution, the guarantor's net assets_x were shown in its last audited individual or group accounts (as the case may be) to be not less than £25 million (or an amount of equivalent value denominated wholly or partly otherwise than in sterling);

(c) in consideration of the deposit a single debt security is issued, in the form of sterling commercial paper, which has a redemption value of not less than £100,000, the whole or part of which may be transferred only if the aggregate redemption value of sterling commercial paper being transferred is not less than £100,000; and

(d) the sterling commercial paper -

(i) is issued and payable in the United Kingdom,

(ii) bears the rubric

"sterling commercial paper issued in accordance with Regulations made under section 4 of the Banking Act 1987",

(iii) states the name of the issuer and that the issuer is not an authorised institution and either states that repayment of the principal and the payment of any interest or premium in connection with the sterling commercial paper have not been guaranteed, or, if they have been guaranteed, states that this is the case, the name of the guarantor and whether or not the guarantor is an authorised institution, and

(iv) if it is issued by a company falling within sub-paragraph (a)(i) or (ii) above, or guaranteed by a company falling within sub-paragraph (a)(i) above, and is not offered by a prospectus to which section 56 or 72 of the Companies Act 1985 or the corresponding Northern Ireland legislation applies, includes a statement made by the company accepting the deposit or the guarantor (as the case may be) that the relevant company has complied with its obligations under the relevant rules and that, since the last publication in compliance with the relevant rules of information about the relevant company, the relevant company, having

made all reasonable enquiries, has not become aware of any change in circumstances which could reasonably be regarded as significantly and adversely affecting its ability to meet its obligations in respect of the sterling commercial paper as they fall due. In this paragraph "the relevant rules" means -

(aa) in the case of a company whose shares or debt securities have been admitted to the Official List, the listing rules, or

(bb) in the case of a company whose shares or debt securities are dealt in on the Unlisted Securities Market, the terms and conditions of entry to the Unlisted Securities Market, or

(cc) in the case of a company not falling within sub-paragraph (aa) or (bb) above, Schedule 3 to these Regulations.";

(d) in Schedule 2 -

(i) after the entry relating to an Area Board within the meaning of section 1(3) of the Electricity Act 1947 there shall be inserted the following new entry -

"Any successor to such an Area Board.";

(ii) the entries relating to the British Steel Corporation and any successor to the British Steel Corporation shall be deleted;

(iii) after the entry relating to the Central Electricity Generating Board there shall be inserted the following new entry -

"Any successor to the Central Electricity Generating Board.";

(v) ~~(iv)~~ after the entry relating to the North of Scotland Hydro-Electric Board there shall be inserted the following new entry -

(iv) ~~after~~ after the entry relating to the Hainbury Corporation, there shall be inserted the following new entry -

" London Regional Transport. " ;

"Any successor to the North of Scotland Hydro-Electric Board.";

(v) for the entry relating to the Northern Ireland Electricity Service there shall be substituted the words "Northern Ireland Electricity.";

(vi) after the entry relating to the Northern Ireland Transport Holding Company there shall be inserted the following new entry -

"The Post Office."; and

(vii) after the entry relating to the South of Scotland Electricity Board there shall be inserted the following new entry -

"Any successor to the South of Scotland Electricity Board."; and

(e) by the addition after Schedule 2 of the following new Schedule:

"SCHEDULE 3 Regulation 13

Requirements to be complied with by UK ^{certain} unlisted and ~~certain overseas~~
~~listed~~ issuers of sterling commercial paper

Interpretation

1. In this Schedule -

"the issuer" means a person accepting a relevant deposit;

"the relevant date" means the date on which the information set out in paragraph 2 below was first provided by the issuer to The Stock Exchange in accordance with paragraph 4 below; ^{and}

accepted on loan involving the issue of any sterling Commercial Paper.

"a relevant deposit" means a deposit ^ethe acceptance of which is an exempt transaction by virtue of regulation 13 of these Regulations; and

~~"the first relevant deposit", in relation to an issuer, means the first relevant deposit accepted by the issuer.~~

Information to have been notified to The Stock Exchange

2. Not less than fourteen days prior to the acceptance of its first relevant deposit the issuer shall have provided the following information to The Stock Exchange:

The issuer

- (a) the name of the issuer and, if the sterling commercial paper was guaranteed, the name of the guarantor;
- (b) the country of incorporation of the issuer and, if applicable, the guarantor;
- (c) the address of the registered office of the issuer (if it has one) and, if it has no registered office or if its principal place of business was not at its registered office, the address of its principal place of business;
- (d) the date on which the issuer was incorporated and, if it has a limited life, the length of its life;
- (e) the legislation under which the issuer is incorporated and the legal form which it has adopted under that legislation;
- (f) the place of registration of the issuer, if different to the country of incorporation, and the number with which it is registered;
- (g) the names and addresses of the issuer's usual bankers;
- (h) details of any legal or arbitration proceedings pending or threatened against the issuer or, if it is a member of a group, any member of the group, which might have, or might have had during the twelve months prior to the relevant date, a significant effect on the financial position of the issuer or the group (as the case may be) or, if there were no such proceedings, a statement to that effect;

(i) the address in the City of London where copies of the documents referred to in paragraph 6 of this Schedule were available for inspection;

(j) if the sterling commercial paper was guaranteed by a company falling within ~~sub-paragraph~~ ^{regulation} 13(a)(i) of these Regulations, an address in the City of London where information about that company was available for inspection in accordance with the listing rules or the terms and conditions of entry to the Unlisted Securities Market (as the case may be);

(k) a description of the principal activities of the issuer, stating the main categories of products sold or services performed, together with, in a case where two or more activities were carried on which were material in terms of profits or losses, such figures and explanations as were necessary to determine the relative importance of each activity;

(l) details of any patent, licence, new manufacturing process or industrial, commercial or financial contract on which the business or profitability of the issuer or its group depended to a material extent;

(m) if the issuer is a member of a group, a brief description of the group and of the issuer's position within it and, if the issuer is a subsidiary, the name of each holding company of the issuer;

Financial information

(n) the amount of the authorised and issued share capital of the issuer, the amount of any share capital agreed to be issued and the number and classes of the shares of which it was composed with details of their principal characteristics; if any part of the issued share capital was still to be paid up, an indication of the number, or total nominal value, and the type of the securities not then fully paid up, broken down, where applicable, according to the extent to which they had been paid up;

(o) information with respect to the profits and losses, assets and liabilities and financial record and position of the issuer and, if it is a member of a group, of the group, set out as a comparative table for each of the latest five financial years of the issuer for which such information was available, together with copies of individual and (if applicable) group accounts for each of the latest two such

financial years, including, in the case of a company incorporated in the United Kingdom, all notes, reports or other information required by the Companies Act 1985 or the Companies (Northern Ireland) Order 1986;

(p) if more than nine months had elapsed since the end of the financial year to which the last published annual accounts related, an interim financial statement covering at least the first six months of the then current financial year and if such an interim financial statement had not been audited, a statement to this effect;

(q) the names, addresses and qualifications of the auditors who have audited the issuer's annual accounts for the preceding two financial years and in the case of a company incorporated outside the United Kingdom a statement as to whether or not those accounts conformed to United Kingdom or generally accepted international accounting standards;

(r) if during the two financial years of the issuer preceding the relevant date the issuer's auditors had refused to sign an auditors' report on the annual accounts of the issuer, or had qualified any such report in any way, a copy of the refusal (if in writing) or of the qualification together with details of any reasons given by the auditors for such action;

(s) details as at the most recent practicable date (which shall have been stated) prior to the relevant date of the following, which, if the issuer is a member of a group, shall also have been provided on a consolidated basis:

(i) the total amount of any loan capital outstanding in any member of the group, and loan capital created but unissued, and term loans, distinguishing between loans guaranteed and unguaranteed, and those secured (whether the security is provided by the issuer or by third parties) and unsecured;

(ii) the total amount of all other borrowings and indebtedness in the nature of borrowing of the issuer or the group (as the case may be), distinguishing between guaranteed and unguaranteed and secured and unsecured borrowings and debts, including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments;

(iii) all mortgages and charges of the issuer or the group (as the case may be); and

(iv) the total amount of any contingent liabilities and guarantees of the issuer or the group (as the case may be);

if the issuer or the group (as the case may be) had no such loan capital, borrowings, indebtedness or contingent liabilities, this shall have been stated;

no account should have been taken of liabilities between undertakings within the same group, a statement to that effect having been made if necessary;

Directors

(t) the names, home or business addresses and functions within the issuer or its group (if applicable) of the directors of the issuer and an indication of the principal activities performed by them outside the issuer or the group (as the case may be) where these were significant with respect to the issuer or the group (as the case may be);

Recent developments

(u) general information on the trend of the business of the issuer or its group (if applicable) since the end of the financial year to which the last published annual accounts related, in particular:

(i) the most significant recent trends in production, sales and stocks and the state of the order book; and

(ii) recent trends in costs and selling prices;

Overseas companies

(v) where information was being provided by a company whose shares or debt securities have been admitted to listing on a Recognised Overseas Exchange the name of the Recognised Overseas Exchange and the type of securities listed;

The sterling commercial paper

- (w) the total amount which the issuer intended to raise by the issue of sterling commercial paper and details of the intended application of the proceeds raised;
- (x) the name and address of any issuing and paying agent for the sterling commercial paper in the United Kingdom and the name and address of any managing agent, if different;
- (y) the period after which entitlement to interest or repayment of capital would lapse, or if there was no period after which such entitlement would lapse, a statement to that effect; *and*
- (z) details of the procedures for the delivery of the sterling commercial paper to holders (including any applicable time limits) and whether temporary documents of title would be issued, ~~and~~

3. Prior to the acceptance by the issuer of a further relevant deposit the issuer shall either have complied with paragraph 2 above as if such further deposit were its first relevant deposit or -

- (a) the issuer shall have provided to The Stock Exchange details of all material changes to the information provided under paragraph 2 above (other than the information provided under sub-paragraphs (n) to (s) (financial information)) as soon as practicable after each such change occurred;
- (b) if no information was required to be provided under sub-paragraph 2(p) above, but ~~on the date of the acceptance by the issuer of the further relevant deposit~~ the nine months period referred to in that sub-paragraph had ^{since} elapsed, the issuer shall have provided the information specified in that sub-paragraph to The Stock Exchange ~~on the expiry of such nine months period;~~ and
- (c) if more than twelve months has elapsed since the relevant date, the issuer shall have provided to The Stock Exchange an updated version of all the information required by paragraph 2 above at intervals of not more than twelve months.

4. The information set out in paragraphs 2 and 3 above shall have been provided in English and in good faith to the Quotations Department of The Stock Exchange in the form of two copies of a document which, in the case of information provided under paragraphs 2 or ³4(c) above, shall have been annotated to indicate where each item set out in paragraph 2 above had been met and (in those cases) shall have been accompanied by a declaration by the directors of the issuer in the following form -

"The Directors of the Company accept responsibility for the information provided. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information is in accordance with the facts and does not omit anything likely to affect the import of such information."

5. The issuer shall have made arrangements with The Stock Exchange for The Stock Exchange to make available to the public all information provided to The Stock Exchange by the issuer under this Schedule and at the date of acceptance of the relevant deposit such arrangements remain ⁱⁿ force.

Information to be available for public inspection

6. The issuer shall have made available at an address in the City of London copies of the following documents during normal business hours for a period beginning on the relevant date and continuing at least until the acceptance of the first relevant deposit:

- (i) the memorandum and articles of association or equivalent documents of the issuer;
- (ii) any trust deed or other document constituting debt securities of the issuer;
- (iii) any contract directly relating to the issue of the sterling commercial paper and any existing or proposed service contract between a director of the issuer and the issuer or any member of its group;
- (iv) any report, letter, valuation, statement, balance sheet or other document any part of which is extracted or referred to in any other document provided to The Stock Exchange under this Schedule;

(v) the audited accounts of the issuer and, if it is a member of a group, the consolidated audited accounts of the group, for each of the two latest financial years preceding the relevant date for which such accounts are available together with, in the case of a company incorporated in the United Kingdom, all notes, reports or other information required by the Companies Act 1985 or the Companies (Northern Ireland) Order 1986 to be attached thereto;

any reference in this paragraph 6 to a document which is not in English shall be taken to include in addition a reference to a translation of that document which is either certified to be correct by a notary public or which has been made by a person certified by a practising solicitor within the meaning of regulation 8 of these Regulations to be in his opinion competent to make such translation

7. Prior to the acceptance by the issuer of a further relevant deposit the issuer shall either have complied with paragraph 6 above as if such further deposit were its first relevant deposit or shall have continued to make available at the address for the time being provided to The Stock Exchange under sub-paragraph 2(i) above up-to-date copies of the documents referred to in that paragraph as soon as practicable after they became available.

Information to have been notified to the Bank of England

8. If the relevant deposit is accepted as part of a programme for the issue of sterling commercial paper, the issuer, before it accepted the first deposit relating to the programme, shall have notified to the Bank of England the total amount to be raised under the programme, the maturity period of the sterling commercial paper to be issued under the programme, and a detailed description of the purposes for which the proceeds of the programme would be used; and if the issuer subsequently extended the programme, shall also have notified details of the increased amount to be raised and any other material changes to the information initially provided.

9. If the issuer has provided information to the Bank of England under paragraph 8 in relation to a relevant deposit, it shall also have reported to the Bank of England within one week after the end of each calendar month following the month in which such information was so provided the amount of sterling commercial paper issued by it outstanding at the end of that calendar month and (in the case of a second or subsequent report) the amounts of sterling commercial paper issued and redeemed by it since the date of the previous report, distinguishing in each case between sterling

commercial paper guaranteed by an authorised institution and sterling commercial paper not so guaranteed."

1989

Two of the Lords Commissioners
of Her Majesty's Treasury

REV. 7E

14 MARCH 1989

COMPLIANCE COST ASSESSMENT

ABOLITION OF CLOSE COMPANY APPORTIONMENT

NATURE OF THE REGULATION

1. What is the origin of the regulation - eg EC proposal, UK statute, request from industry/trade/interest group/other?

The Chancellor proposes in his Budget to abolish the legislation concerning the apportionment of close companies' income, which potentially affects several hundred thousand trading companies. There will be some replacement legislation but this will apply only to the small minority of close companies which are investment companies. The details of the proposals were described in the Inland Revenue press release issued on 14 March (copy attached).

2. What is the problem requiring regulation? How severe is it?

The purpose is to simplify the tax legislation affecting several hundred thousand small incorporated businesses and thereby to reduce the compliance burden. The existing legislation is about 20 pages long and is complex.

3. What is the existing regulatory provision, if any?

The existing provision is the close company apportionment legislation in Sections 423-430 and Schedule 19, Income and Corporation Taxes Act 1988.

4. Are there alternatives to regulation eg a code of conduct or voluntary agreement? Why have these been rejected?

Tax changes require legislation.

5. What timetable is proposed for the introduction of the new regulation? Must all measures be introduced at once or can these be introduced over a period?

The change will apply to companies' accounting periods starting after 31 March 1989. This method of introduction is simpler for companies than one which imposes different tax regimes on different parts of an accounting period.

6. Can the period of operation of the new regulation be limited?

There will be a continuing need for the replacement legislation to prevent individuals using close investment companies to hold their investments so as to avoid higher rate income tax and capital gains tax.

7. How will the regulation be enforced? By central government or through local authorities?

The new legislation will be administered by central Government (the Inland Revenue).

8. What specific provisions for small firms have been considered; such as exempting them from the regulation's requirements or other measures?

The benefits of simplification and the reduction in the compliance burden will largely affect small firms. The replacement legislation will apply to investment companies only.

9. What consultations have there been with businesses? Are there any concerns raised by business which have not been met? If so what are they?

There have been no consultations about the specific Budget proposals but various representative bodies have recommended the abolition of the apportionment legislation.

IMPACT ON BUSINESS

10. Are certain sectors of industry or companies of a certain size likely to be particularly affected by the regulation? Please state the numbers of companies or establishments and employees which will be affected

There are several hundreds of thousands of close trading companies, in all sectors of industry, which are potentially subject to apportionment of their investment income. The possibility of apportionment influences company behaviour and can complicate business decisions.

11. What will businesses have to do to comply with the regulation? How will this compare with their current practices?

The new legislation applies only to investment companies. Even for them, it is much simpler and easier to comply with than the existing apportionment legislation.

12. What additional resources or work will businesses be faced with in modifying their behaviour to comply with the regulation? What will this cost (a) a typical business and (b) industry as a whole?

Trading companies will face no new work. Investment companies will find the new legislation easier to follow and they do not have to modify their behaviour.

BENEFITS

13. What will be the benefits to the UK economy as a whole, to Government objectives, to consumers, employees, traders or enforcement authorities? This should include tangible benefits eg savings on health and emergency services. Unquantifiable gains in efficiency and intangible benefits should also be mentioned.

The direct benefit will be a substantial simplification of the tax treatment of small incorporated businesses. This should allow firms and their professional advisers to concentrate more on commercial considerations.

MONITORING AND EVALUATION

14. What steps are being taken to measure the effectiveness of the new regulation in meeting its objectives? When will the regulations be reviewed?

The operation of the new tax legislation will be monitored in the usual way - taking account of information from Tax Inspectors and from the comments of representative bodies and others. The effects of the change will not necessarily be separately measurable. But it will contribute to the general improvements in the tax regime for businesses.

CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 23 March 1989

CHANCELLOR

cc Mr Culpin
Mr Moore
Mr Odling-Smee
Mr Bent
Mr Gilhooly
Mr M L Williams
Miss Hay
Mr Holgate

Mr Jenkins - OPC

Mr Farmer) IR
Mrs Majer) IR
PS/IR

*Oh
OK? (Pse let me
know before you go!) OK
23/3
OK ✓*

STARTER 455: ELECTRICITY PRIVATISATION - EMPLOYEE SHARE OFFERS

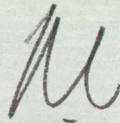
Kleinworts' delay in submitting advice on the method of sale for the distcos is causing the Revenue problems on the tax legislation needed to facilitate the employee share offers. Because the arrangements for the Industry Share will not be sufficiently clear for us to be sure that they constitute an "offer to the public" (so that employees may benefit from the tax relief for priority share allocations), the Revenue's strong advice, with which I concur, is that we run the risk of introducing amendments at Committee Stage this year which are either unnecessary or (worse) inadequate. If the Industry Share is not used, then the drafting should be able to proceed without mishap. But even here, we need a decision quickly if the amendments are to be ready in time for Committee Stage.

I spoke to Cecil Parkinson and Michael Spicer last night about this. Cecial now says that he is going to drop the idea of an Industry Share. However, time is ticking on. I therefore think I should write to Michael saying;

- if a decision is taken not to use an Industry Share by April 10th, then we will legislate accordingly in this year's Finance Bill;
- but if no decision is taken by then, or we decide to use an Industry Share, then legislation on the tax consequences for the employee share offers will have to wait until next year's Bill. We would however make a statement to that effect, so that Michael can reassure the industry that his pledge that all employees will be treated equally is being met.

If you agree, the Revenue will provide a draft letter so that it can get to Energy Ministers today.

IR draft behind.



NORMAN LAMONT

This should be O.K. provided they really do drop the industry share & decide quickly.