

PO-CH/NL/0492

PART B

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PART. B.

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1989 BUDGET
FINANCE BILL

THIS FOLDER HAS BEEN
REGISTERED ON THE
REGISTRY SYSTEM



Inland Revenue

Business Tax Division
Somerset HouseFROM: M J G ELLIOTT
DATE: 22 FEBRUARY 1989

1. Mr McGivern *Aug 22/2*
2. Financial Secretary

"NOTHINGS"

1. You will recall that when you saw Mr Philip Hardman last November to discuss his various proposals for simplification of the tax system, you suggested that he (and representatives of the ICAEW) should have further discussions with the Revenue on the question of "nothings", that is, particular kinds of business expenditure for which tax relief is not available under the law.

2. We had a meeting with Mr Hardman and other ICAEW representatives last month, and we undertook to report back to you the views they expressed. That is the purpose of this note.

Background

3. The complaint that there is no tax relief for certain types of business expenditure is a very long-standing one, and we have discussed it, both generally and in relation to particular types of expenditure, with the accountancy bodies

cc

Chancellor
Chief Secretary
Mr Scholar
Mr Culpin
Mr Gilhooly
Mr Jenkins (OPC)

cc

Mr Isaac
Mr McGivern
Mr Cleave
Mr Elliott
Mr Farmer
Mr Moule
Mr O'Connor
Miss Brand
PS/IR

over many years. The general statutory rule is that business expenditure is deductible for tax purposes if it

- is on revenue rather than capital account; and
- is incurred wholly and exclusively for the purposes of the trade in question. Apart from commercial buildings, most items of capital expenditure, of course, are relieved by way of capital allowances.

4. Virtually all the nothings are items of expenditure which fail to satisfy one or other of these tests, either because they are of a capital nature (and do not qualify for capital allowances eg commercial buildings) or because they are incurred before trading begins or after it has ceased.

5. From time to time, Ministers have legislated specifically to provide relief for particular "nothings". So, for example, there is now relief for -

- pre-trading expenditure incurred within 3 years of the time trading begins (you will recall that this year's Budget starter 213 will increase that period to 5 years and this will meet one of the points raised);
- costs of raising loan finance (which are on capital not revenue account).

Our discussion with the accountants

6. As an agenda for the meeting the accountants provided an updated list of nothings which I attach as an annex. At the meeting they made the general point that all these items looked to accountants to be genuine business expenses and that in principle it therefore seemed right that relief should be available for them. They were particularly concerned that the revenue/capital division was outdated in modern circumstances.

7. In reply we said that a distinction between revenue and capital was fundamental to any system of income taxation (and, indeed, also fundamental to accounting principles) and it was not realistic to expect any fundamental changes within the present regime. (We wonder for example whether they would argue that expenditure on plant and machinery should be deducted in full in the year in which it is incurred; or that capital gains should be taxed in precisely the same way as income). But nothings were kept under review and from time to time legislation was introduced on particular points. In view of the regular and inexorable pressure on Finance Bill space, however, Ministers were only likely to contemplate legislation on points which caused major distortions and for which a strong case could be made out.

8. We then worked through the accountants' list of priority points (and some non-priority ones). It was clear that, even on some of the "priority" points, the accountants were not - on their own admission - able to demonstrate that the issue was one which gave rise to much difficulty or unfairness in practice.

Two points possibly meriting attention

9. There were two points in the accountants' list to which they gave priority which have some connection with starters going forward into this year's Finance Bill.

(i) Employee share schemes

10. The first is the proposal that tax relief should be available for the costs of setting up share incentive schemes, ie legal and accountancy fees. These costs do not qualify for relief because they are capital, not revenue, in nature. The point has come up occasionally in representations in the past. At the meeting, the accountants said that in practice these costs would effectively get relief where the particular scheme was set up by the

company's "in house" lawyer or accountant, because the company would be able to claim a deduction for their salaries. But that could be said to make it the more inequitable that relief is not due where a company turns to outside professional advisers.

11. It might be that a relief for setting up costs could be coupled with the ESOPS tax relief. The new relief would need to apply to the costs of setting up ESOPS and all other ESSs for which tax relief is available, ie 1978, 1980 and 1984 schemes.

(ii) Pre-trading interest payments

12. The second point relates to interest payable by a company before it starts to trade. The general rule for allowable business expenditure is that short interest, or annual interest payable to a UK bank, is allowable as a trading expense, and so it qualifies for the three-year pre-trading relief which is to be increased to five years in the coming Budget. But annual interest payable by a trader to a lender not carrying on a banking business in the UK, and interest payable outside the UK, is relieved from tax as a charge on income and not as a business expense; so the pre-trading relief does not apply to it.

13. It looks odd and rather indefensible that some forms of pre-trading interest payments qualify for relief when the trade begins, but not others. The point has come up in at least one recent case (the Dartford Thurrock crossing); but we have no evidence at all of any widespread difficulty. Eurotunnel have not taken the point in their recent requests for extension of the pre-trading relief. We have only got a very broad idea of the sort of pre-trading expenditure they are incurring, and we cannot say whether this point would be relevant to any of it, but one might have expected them to have picked it up if they thought it was.

14. There is obviously an argument for dealing with both these points in this year's Finance Bill, given that each of them impinges on provisions already to be included in the Bill. But I hesitate to recommend that because it is now very late in the day and the points are relatively minor. We are concentrating on finalising the ESOP and CGT/trading losses starters, which clearly command higher priority; but if you felt you wanted to do something we could

- see whether the point about setting-up costs of share schemes could conveniently be covered as part of the ESOP package
- wait and see whether any pressure builds up on the pre-trading interest point in response to the clause extending pre-trading relief. If it does, and Counsel feels it would be possible to meet the point simply, you might consider the possibility of introducing an amendment at Committee or Report.

15. We should be grateful to know if you would like to proceed in that way.

16. That aside, we suggest that no further action is needed on the "nothings" issue at this stage, now that the accountants have had the meeting you promised them.

19/8

M J G ELLIOTT

POINTS PREVIOUSLY MADE

	<u>Category</u>
<u>REVENUE EXPENDITURE</u>	
1. <u>Post-cessation expenses (item 1)</u>	A
This often encourages delay in filing accounts, and comprises such items as bad debts, dilapidations, interest and employment costs of staff retained to look after unused premises.	
2. <u>Expenses of closing down a business (item 2)</u>	A
3. <u>Intra-group expenses (item 3)</u>	A
It is often administratively cumbersome or true consuming to identify and recharge such expenses.	
4. <u>Interest on overdue tax (item 4)</u>	B
5. <u>Leases (see also Appendix 2).</u>	
(a) Lump sum for variation to ensure a lower future rental. (item 5)	A
(b) Payment to terminate lease of trading premises. (item 12)	A
(c) Acquisition and disposal of leases (item 19).	B
(d) Dilapidations and payments in lieu thereof (items 9 and 11).	B
6. <u>Charges prior to commencement of business (item 6)</u>	B
A common example is interest paid in year 1 but trading does not commence until year 3; although in practice an effort is made to defer the interest or get some sort of trading into years 1 and 2 it is wrong to have to resort to such devices. This inhibits business start-ups. Section 401, Taxes Act 1988 should have covered charges and could easily be so amended.	
7. <u>Abortive capital expenditure (item 7)</u>	A
An example is abortive planning expenditure .	
8. <u>Pre-trading expenditure earlier than 3 years before (item 8)</u>	B

9. Expenses of investment company (item 10) B
 This problem is often caused by the rather restrictive nature of management expenses relief.
10. Initial repairs (item 13) B
11. Formation expenses (item 14) B
12. Costs of raising share capital and reorganisation costs (item 15) A
 Particular concern also as to share buy-ins and demergers.
13. Professional costs of share incentive schemes (item 16) A
 An example of where costs of complying with Government initiatives should be allowable.
14. Incidental costs of finance (item 17) B
 Those related to such matters as swaps and also reusing equity finance.
15. Variation of loan agreements (item 18) B

CAPITAL EXPENDITURE

1. Leases B
 (a) Long leases will end one day and are therefore wasting assets. Does not mean, say, 999 year leases which are effectively freehold. (item 3)
 (b) Premiums for assignment of lease (item 6)
2. Wasting assets not otherwise allowed (item 4) B
 This also includes, for example, the right to advertise on a site.
3. "Know-how" (item 5) B
 By means of an extension of sections 530 and 531, Taxes Act 1988.
4. Holes in the ground (item 7) A
 Understood to be under review. This also includes the acquisition of tipping rights.

5. Computer software (item 8 and 9)

B

The Revenue have written on 6 April 1987 and this information is given to those who enquire.

1. Directors' indemnity insurance premiums

Indemnity insurance premiums paid by directors are not deductible against income under Schedule E since the payments are not considered to be expenses wholly, exclusively and necessarily incurred for the purposes of their office as directors.

Furthermore, such premiums paid by the company are assessable on the directors as benefits in kind for which no corresponding deduction is available.

Indemnity insurance is often essential for directors and this need in the current business climate is increasing. We consider that relief should be available : if Finance Bill space is not available we suggest that it should be possible to cover this matter by a Statement of Practice.

2. Tax relief for the retired self employed

For the protection of the consumer and for his own protection, it is increasingly important for the professional to ensure that he is adequately covered by professional indemnity insurance (PII). So long as he remains in business, the PII premiums that he pays are, quite rightly, treated as an allowable expense in arriving at his taxable income.

On retirement, the situation changes. The professional may have to continue paying PII premiums for up to seventeen years after he ceases to be in business in order to cover himself against claims that might be made as a result of his former work. But, by definition, he no longer has any business income against which the premiums can be offset for tax. And the legislation does not allow the premiums to be allowed against any other income in retirement. This state of affairs is plainly unjust. The PII premiums paid in retirement are in reality part of the cost, albeit delayed, of earning the taxable income that preceded retirement. They are as much a business expense as any other payment made by the professional in the course of his work.

The present situation is also dangerous. The absence of tax relief encourages the retired professional not to obtain PII cover, which is in any case increasingly expensive. This exposes the consumer to the risk that he will suffer loss without the possibility of full redress, and the retired professional to the risk that he will face financial ruin as a result of claims arising from his past work. The tax system therefore promotes financial insecurity in a sector of the population that is already vulnerable.

The ideal solution would be for post-retirement premiums to be offset against pre-retirement income. Failing this, we believe that the legislation should at least be amended so as to allow post-retirement PII premiums to be offset against the retired person's other income. This would be a partial remedy to a real injustice that affects both the retired and those to whom the retired owe a responsibility in law as a result of their former work.

3. Investment companies

Unrelieved charges and management expenses carried forward when an investment company commences to trade (eg in a management buy-out) are forfeited.

4. Capital contributions

It is acceptable, under certain foreign laws, to inject capital as a capital contribution without going through the formalities of issuing further shares. However, on disposal the capital contribution is not treated as part of the base cost of the shares for UK capital gains purposes. Notwithstanding the position for UK-registered companies, where capital duty has been abolished, there will still be a number of situations involving overseas registered companies where a capital contribution will be appropriate and which should form part of the base costs of the shares in that company for UK capital gains purposes.



[Handwritten signature]

FROM: R C M SATCHWELL
DATE: 23 February 1989

MR ELLIOTT - IR

cc PS/Chancellor
PS/Chief Secretary
Mr Scholar
Mr Culpin
Mr Gilhooly
Mr Jenkins - OPC

Mr McGivern - IR
PS/IR

[Red checkmark]

"NOTHINGS"

The Financial Secretary was most grateful for your minute of 22 February. On balance, he would prefer to do nothing on "nothings" this year, since pressure on the Bill is already very heavy. But this area could usefully be considered as a possibility for next year's Bill.

R.C.M.S.

R C M SATCHWELL
Private Secretary



FROM: J M G TAYLOR
DATE: 21 February 1989

PS/FINANCIAL SECRETARY

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gieve
Mr Michie
Mr Call
Mr Tyrie

Mrs Strachan - C&E
Mr Jefferson Smith - C&E
Solicitor
Mr Nissen - C&E
PS/C&E

PS/IR

Mr Sutherland
(Parly Counsel)

**FINANCE BILL STARTERS 63 AND 452: UNAUTHORISED DISCLOSURE OF
CONFIDENTIAL INFORMATION AFTER REFORM OF SECTION 2 OF THE OFFICIAL
SECRETS ACT 1911**

The Chancellor has seen the Economic Secretary's note of 17 February.

2. He has noted in particular the problem in relation to purported information, ie that, in the absence of a clause making purported information an offence, a defence of taxpayer confidentiality may have been erected which could only be sustained if Revenue Departments confirmed the truth of leaked information about taxpayers. He notes the Economic Secretary's view that this is neither a satisfactory situation nor a defensible one; and he has commented that the Economic Secretary seems to have a good point.


J M G TAYLOR

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



FROM: S M A JAMES
DATE: 21 February 1989

MR RICH

cc: PS/Chancellor
PS/Sir P Middleton
Mr Wicks
Mr Scholar
Mr Peretz
Miss O'Mara
Mr Michie
Mrs Chaplin

Mr Patterson - DNS
Mr Jenkins - Tsy Sol

FINANCE BILL STARTER 656 : NATIONAL SAVINGS ORDINARY ACCOUNT INTEREST

The Economic Secretary was grateful for your minute of 17 February.

2. He agrees with your advice to the opposition this will meet, but he found your defensive brief very helpful. The most difficult question to answer would be : "why are you not closing the ordinary account down?"

Handwritten notes in red ink:
~~Altho~~ Altho it is
 Annoy & ph...
 The banks are moving out of
 party & into...
 accounts, people are going out
 of the area of...
 for no...
 2. When is this...
 returned...
 Ch...
 or...
 FSBK?
 FSBK?

Handwritten signature: Jimmy

S M A JAMES
Private Secretary



CH/EXCHEQUER	
REC.	22 FEB 1989
AD. IN	Mr Hutton
GD. AS	CST, FST, PMG, EST
TU	SIR P. Middleton SIRT Burps Dame A Mueller MR Scholard MR C. D. Butler MR Culpin MR Gilhooly MR S. Chaplin MR Tyne MR Call MR Darwin - CTE MR Howard CTE MR Sutherland - Party Counsel SIR A. Battishill IIR MR Rogers IIR PS IIR

Foreign and Commonwealth Office
22/2
London SW1A 2AH

22 February 1989

Dear Jonathan,

Protection of Taxpayer Information
Following Reform of the Official Secrets Act

The Foreign Secretary has seen the Chancellor's minute of 17 February to the Prime Minister and is content with the proposed action.

I am copying this letter to the Private Secretaries to members of the Cabinet and to Sir Robin Butler.

Yours ever,
Richard Gozney
(R H T Gozney)
Private Secretary

Jonathan Taylor Esq
HM Treasury

Re X, I don't think that is an appropriate or IR law is contained in the Act, where it would be necessary to see Mr Hutton's letter of 24/2, behind, which suggests doubling the punishment to six months.

To see Also NB

Mr Hutton's letter of 24/2, behind, which suggests doubling the punishment to six months.

2/29/89

evaluation app. 12.

FROM: J F GILHOOLY

DATE: 24 February 1989

FINANCIAL SECRETARY

cc: PS/Chancellor
 PS/Chief Secretary
 PS/Paymaster General
 Economic Secretary
 Sir P Middleton
 Mr Scholar
 Mr Culpin
 Miss Hay
 Mr Michie
 Mr Call
 Mr Tyrie

Mr Harvard (C&E)

Mr Rogers (IR)
 Mr Hutton (IR)
 Mr McManus (IR)

FINANCE BILL STARTERS 63 AND 452 : PROTECTION OF TAXPAYER INFORMATION : PURPORTED INFORMATION

A submission is on its way to you from the Revenue. There are two particular points which you will wish to consider.

Revenue or Customs support for taxpayer

2. This arises in paragraph 13 of Mr Hutton's submission of 10 February:

" If there is no truth at all in the allegations they will be deniable by the taxpayers with support from the Revenue Departments if he seeks it."

3. I can see that this would work very easily if all taxpayers were totally honest and could be relied upon to remain so. But in practice I wonder whether the Boards of Inland Revenue and Customs might not wish to be very cautious about giving such support, for the following reasons:

Case A

Taxpayer completely honest so far as Department knows and remains so forever. No problem about giving support.

Case B

Taxpayer completely honest as far as the Department knows, and therefore support. Six months later, irregularities discovered in tax returns for earlier years. Having supported the taxpayer's claim that he's innocent, the Department might find itself hampered in pursuing the taxpayer.

Case C

Taxpayer is a publican under investigation, about to be prosecuted for, say, an excise fiddle. Leak completely untruly accuses him of VAT fraud. Support looks difficult.

Case D

Taxpayer is under investigation because suspected of tax evasion, but investigations not yet conclusive and outcome not certain. Leaker says the taxpayer is evading taxes. Department asked for support by taxpayer. Difficult to see how it could agree. (Nor could Department prosecute the leaker because it does not have firm evidence that the leak was true.)

4. If the Department agrees to provide a support in all four cases, it is clearly putting itself in great difficulties in pursuing suspected or future evasion by the taxpayer. But if it starts to pick and choose among the four cases, willingness to provide support will become a test (eg in a libel case, or in the press) of whether or not the allegation is true.

5. This leads on to the thought that Departments might, in practice, have to be very chary about giving support at all.

6. There is also the related, but separate, question of whether under the legislation proposed, a Department could refuse to give evidence in a libel case if a taxpayer asked that they should do so.

Purported Information

7. It is natural to go on from the above to ask whether it is right to exclude purported information.

8. As I understand it, the arguments for excluding purported information are:

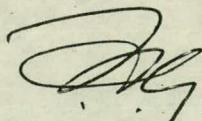
- to include it would add a complication which might prove difficult to draft for;
- where the leaker is an employee, the disciplinary code can be used against him/her;
- whether an employee or an ex-employee, the taxpayer can have resort to the courts and take libel action;
- X | - it would go further than existing law does.

9. The arguments for including purported information are:

- to avoid the difficulty identified by the Economic Secretary, that the leaker would have the defence that he had lied - and the Department would have to prove otherwise; whereas
- with purported information included, if the Department took criminal proceedings, the accuracy or otherwise of the information would not be an issue: the offence would be making a public statement about the affairs of a taxpayer;

- the two Departments would be seen to be even-handled as between accurate and inaccurate leaks. Under present proposals, they could be presented as more concerned about "covering up" decisions not to pursue tax due, than about protecting taxpayers from the actions of leakers.

- The damage done by a "purported" leak derives largely from the leaker's position as an official (or ex-official) of a Revenue Department. Relying on a libel action puts the onus on the taxpayer who, financially or otherwise, might feel that he cannot afford to take action.



J F GILHOOLY



INLAND REVENUE
MANAGEMENT DIVISION
SOMERSET HOUSE

FROM : R A HUTTON

DATE : 24 FEBRUARY 1989

1. MR P B/G JONES
2. FINANCIAL SECRETARY

**FINANCE BILL STARTERS 63 AND 452 : UNAUTHORISED DISCLOSURE :
PURPORTED INFORMATION**

1. In the light of paragraph 4 of the Economic Secretary's note of 17 February on which the Chancellor has commented (Mr Taylor's note of 21 February), we have gone back to basics on the question of whether purported information should be covered.

CC	Chancellor	Sir A Battishill	
	Economic Secretary	Mr Isaac	
	PS/Chief Secretary	Mr Painter	
	PS/Paymaster General	Mr Rogers	
	Sir P Middleton	Mr Beighton	
	Sir T Burns	Mr Shutler	
	Dame A Mueller	Mr Miller	
	Mr Scholar	Mr Bush	
	Mr C D Butler	Mr Hutton	
	Mr Culpin	Mr McManus	
	Mr Gilhooly	Mr Unwin	C&E
	Mrs Chaplin	Mr Jefferson Smith	C&E
	Mr Tyrrie	Mr Howard	C&E
	Mr Call	Mr Sutherland -	OPC

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Official Secrets Bill

2. The provision on purported information in the OSB breaks new ground. It introduces a new offence, not only in terms of Official Secrets legislation, but also in criminal law in general. Together with the main measure covering the unauthorised disclosure of genuine information, it is designed to discourage those working in the Security and Intelligence services from making any damaging statements about their work by creating an absolute offence. It will not be necessary for the prosecution to show whether a statement is true or false; merely to prove that the statement has in fact been made.

3. The working group on the reform of the Official Secrets Act, set up by Sir Robert Armstrong, concluded that such a measure could only be justified to Parliament if confined to those working in the Security and Intelligence services. They recommended that the purported provision should not be extended beyond the "special offence" related only to members of those services.

The Revenue Department's Measure

4. Against this background, we have looked at the justification for importing a similar provision into the measure proposed for the two Revenue Departments. For a number of reasons, we have found this difficult.

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5. First, there is no credible parallel to be drawn in terms of the national interest between the sensitivity of private information held by the Revenue Departments, and information held by the security services. While protection of intelligence information may be vital to the security of the state, this can hardly be argued in relation to private information about taxpayers held by the Inland Revenue and Customs and Excise.

6. Second, if the Finance Bill provision were to cover purported information, it would not be possible to present it as merely continuing the existing protection of private information afforded by Section 2 of the Official Secrets Act. In terms, the new provision would clearly be wider in scope. Statements by an employee which purported to be true but which in fact were not, would not be unauthorised disclosures at all. They would be mischievous or malicious acts which would certainly be deserving of the full rigours of the Civil Service Disciplinary Code but arguably would not be deserving of exposure to criminal prosecution.

7. Third, in presenting and justifying the need for a criminal sanction to discourage the unauthorised disclosure of information held about taxpayers, it will be helpful for Ministers to be able to say that, in future, just as in the

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past, prosecution would only be contemplated in the most serious cases. We envisage criminal prosecution continuing to be reserved for actual disclosures which were highly damaging in practice and where the normal remedies under the Civil Service Disciplinary Code were inadequate or, in the case of a former employee, unavailable. This line of presentation would not be possible for a measure which also covered purported information.

8. It is worth recalling that neither Revenue Department has any recent record of having to prosecute under Section 2 of the Official Secrets Act - which underlines the very good track record on confidentiality of the staff of both Departments - and no examples in practice of "purported disclosure" of a kind which might argue for putting the provisions for the Revenue Departments on all fours with those for the Security services.

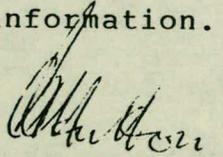
9. In summary, therefore, we do not think that extending the measure to cover purported information is necessary or easily supportable. And it would be contrary to the thinking behind the relevant parts of the present OSB where the concept was created for a very different and specific purpose. Even that has not stopped it being a controversial feature of the OSB during the debates. If the Revenue Department's measure were to cover purported information, it could attract criticism of

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what we otherwise expect to be an uncontroversial measure, particularly in view of the amendment to the OSB tabled by Mr Hattersley and others earlier this week (Annexe A; Hansard 22 February 1989, Column 1072 and 1073).

10. It is in the light of this re-analysis that we turn to the Economic Secretary's point (minute 17 February) endorsed by the Chancellor (minute 21 February). It is necessary to say immediately that it is a good point but it is a point which, in principle, has held good since the Official Secrets Act, without coverage of purported information, came onto the Statute Book in 1911. Neither Revenue Department is aware of any difficulty in practice, to date, so that it is not possible to point to examples which would justify new remedies to deal with new problems (i.e. the point in paragraph 8 above).

11. The, possibly controversial, case would therefore have to be argued in principle in the light of a period of nearly 80 years during which neither in principle nor in practice, was a change thought necessary. Arguing that case may not be easy, notwithstanding, with respect, the neat way the Economic Secretary has taken the point. On balance, therefore, we remain of the view that in a deterrent to the unauthorised disclosure of private information held by the Revenue Departments, it is not necessary to deal with purported information.


R A HUTTON

MacGregor, Rt Hon John	Sackville, Hon Tom
MacKay, Andrew (<i>E Berkshire</i>)	Sayed, Jonathan
Maclean, David	Scott, Nicholas
McLoughlin, Patrick	Shaw, David (<i>Dover</i>)
McNair-Wilson, Sir Michael	Shaw, Sir Giles (<i>Pudsey</i>)
McNair-Wilson, P. (<i>New Forest</i>)	Shephard, Mrs G. (<i>Norfolk SW</i>)
Madel, David	Shepherd, Collin (<i>Hereford</i>)
Major, Rt Hon John	Shersby, Michael
Malins, Humfrey	Sims, Roger
Mans, Keith	Skeet, Sir Trevor
Marland, Paul	Smith, Sir Dudley (<i>Warwick</i>)
Marlow, Tony	Smith, Tim (<i>Beaconsfield</i>)
Marshall, John (<i>Hendon S</i>)	Smyth, Rev Martin (<i>Belfast S</i>)
Marshall, Michael (<i>Arundel</i>)	Soames, Hon Nicholas
Martin, David (<i>Portsmouth S</i>)	Speller, Tony
Mates, Michael	Spicer, Sir Jim (<i>Dorset W</i>)
Mawhinney, Dr Brian	Spicer, Michael (<i>S Worcs</i>)
Mayhew, Rt Hon Sir Patrick	Squire, Robin
Mellor, David	Stanbrook, Ivor
Meyer, Sir Anthony	Stanley, Rt Hon Sir John
Miller, Sir Hal	Steen, Anthony
Mills, Iain	Stern, Michael
Miscampbell, Norman	Stewart, Allan (<i>Eastwood</i>)
Mitchell, Andrew (<i>Gedling</i>)	Stewart, Andy (<i>Sherwood</i>)
Mitchell, Sir David	Stewart, Rt Hon Ian (<i>Herts N</i>)
Moate, Roger	Stokes, Sir John
Molyneaux, Rt Hon James	Stradling Thomas, Sir John
Monro, Sir Hector	Sumberg, David
Montgomery, Sir Fergus	Summerson, Hugo
Moore, Rt Hon John	Tapsell, Sir Peter
Morris, M (<i>N'hampton S</i>)	Taylor, Ian (<i>Esher</i>)
Morrison, Rt Hon P (<i>Chester</i>)	Taylor, John M (<i>Solihull</i>)
Moss, Malcolm	Tebbit, Rt Hon Norman
Moynihan, Hon Collin	Temple-Morris, Peter
Mudd, David	Thompson, Patrick (<i>Norwich N</i>)
Neale, Gerrard	Thorne, Nell
Needham, Richard	Thurnham, Peter
Nelson, Anthony	Townend, John (<i>Bridlington</i>)
Neubert, Michael	Tracey, Richard
Newton, Rt Hon Tony	Tredinnick, David
Nicholls, Patrick	Trippier, David
Nicholson, David (<i>Taunton</i>)	Trotter, Neville
Nicholson, Emma (<i>Devon West</i>)	Twinn, Dr Ian
Norris, Steve	Vaughan, Sir Gerard
Onslow, Rt Hon Cranley	Viggers, Peter
Oppenheim, Phillip	Waddington, Rt Hon David
Page, Richard	Wakeham, Rt Hon John
Paice, James	Walden, George
Patnick, Irvine	Walker, Bill (<i>T'side North</i>)
Patten, John (<i>Oxford W</i>)	Waller, Gary
Pattie, Rt Hon Sir Geoffrey	Ward, John
Pawsey, James	Wardle, Charles (<i>Bexhill</i>)
Peacock, Mrs Elizabeth	Watts, John
Porter, David (<i>Waveney</i>)	Wells, Bowen
Portillo, Michael	Wheeler, John
Powell, William (<i>Corby</i>)	Whitney, Ray
Price, Sir David	Widdecombe, Ann
Raffan, Keith	Wiggin, Jerry
Raison, Rt Hon Timothy	Wilkinson, John
Rathbone, Tim	Wilshire, David
Redwood, John	Winterton, Mrs Ann
Renton, Tim	Wolfson, Mark
Rhodes James, Robert	Wood, Timothy
Riddick, Graham	Woodcock, Mike
Ridsdale, Sir Julian	Yeo, Tim
Roberts, Wyn (<i>Conwy</i>)	Young, Sir George (<i>Acton</i>)
Roe, Mrs Marion	Younger, Rt Hon George
Rossi, Sir Hugh	
Rost, Peter	
Rowe, Andrew	
Rumbold, Mrs Angela	
Ryder, Richard	

New Clause 3

INTERNATIONAL RELATIONS

(1) A person who is or has been a Crown servant or government contractor is guilty of an offence if without lawful authority he discloses any information, document or article relating to the personal affairs of an identifiable individual which has been supplied in accordance with any requirement to do so imposed by or by virtue of any statutory provision or so supplied in connection with an application under a statutory provision for the grant of any benefit, approval or other permission, or which is held by any police authority, and which is held on terms requiring, or in circumstances in which it would be reasonable to expect, it to be held in confidence.

(2) It is a defence for a person charged with an offence under this section to prove that the disclosure was required in order to prevent serious injury to the health, safety or welfare of any person or a serious risk to public health.

(3) It is a defence for a person charged with an offence under this section to prove that at the time of the alleged offence he did not know, and had no reasonable cause to believe, that the information, document or article in question was such as is mentioned in subsection (1) above.—[*Mr. Richard Shepherd.*]

Brought up, and read the First time.

Mr. Richard Shepherd: I beg to move, That the clause be read a Second time.

Again, I shall go as quickly as I can through new clause 3. The clause proposes to add a new category of information—personal information about individuals—to those protected under the Bill. At present, the one area in which section 2 of the 1911 Act is still being used, and where its use is least controversial, is to deal with improper disclosures of personal information.

Earlier this month, two police officers and five private investigators were convicted under section 2 for conspiring to obtain information from the police national computer about criminal convictions and car owners. In 1986, a clerk at the DHSS was convicted under section 2 for revealing to a rival councillor details of social security claims made by the husband of a local councillor. Such information would no longer be covered by the new Official Secrets Act. The only police information that would be covered would be information whose disclosure would impede law enforcement.

Disclosures may still be offences under other statutes. If the information is held on computer, unauthorised disclosure by an individual may be an offence under section 5(3) of the Data Protection Act 1984. If the information is held on paper files, however, it is not covered by that Act. There are other prohibitions in individual statutes on the disclosure of certain types of personal information, but it is not clear how comprehensive they are. I recall that my right hon. Friend the Secretary of State actually said that one of the things that the Department would be doing would be to review the existing legislation to ascertain whether there are omissions. We have not had the Minister's view on that yet. It may, of course, turn out to be the case that some types of information covered by the amendment are already adequately protected by other statutory provisions and that the amendment is therefore not required, but I have some doubt about that in respect of the national police computer.

The new clause recognises that the protection of personal privacy is an extremely high priority for the public and should be recognised by legislation. The amendment would cover the following types of personal

Question accordingly negatived.

information held in confidence about an identifiable individual. First, it would cover information that an individual is required to supply by statute. That would, for example, include income declared to the Inland Revenue—I should like to hear my hon. Friend the Minister's view on whether that is protected by existing legislation—census information or car ownership details. Secondly, it would cover information supplied in connection with an application for a statutory benefit or permit, such as social security or legal aid. Thirdly, it would cover information held by the police. The new clause refers to information held by a "police authority", but perhaps it should have referred to a "police force".

Subsection 2 of the new clause provides a defence for an unauthorised disclosure if

"If the disclosure was required in order to prevent serious injury to the health, safety or welfare of any person or a serious risk to public health."

That principle is incorporated in the Prevention of Pollution Act 1974. Such disclosure might arise in an emergency when, for example, someone was carrying a highly dangerous infectious disease such as smallpox. A need for an exception of this nature is also recognised in the Data Protection Act 1984. Section 34(8) of that Act allows disclosure which otherwise would be an offence where it is

"urgently required for preventing injury or other damage to the health of any person or persons".

8.30 pm

Mr. Corbett: I shall make a brief contribution to the debate because the conviction of a clerk at the DSS, which was mentioned by the hon. Member for Aldridge-Brownhills (Mr. Shepherd), happened in my constituency. I do not want to cause any trouble by saying that the councillor involved was a Liberal, but whatever else he did, he should not have asked for that information.

Mr. John Patten: Name him.

Mr. Corbett: He is no longer a councillor, so it does not matter.

When the Minister replies, he may well assure the House that the restrictions on the passing of information that citizens have to provide on a statutory basis, such as information to the taxman, the DSS, or whatever, are protected by other legislation. If that is so, we shall be able to dispose of this debate fairly rapidly.

Mr. John Patten: During the course of my speech I hope that I will be able to bring a smile to the face of my hon. Friend the Member for Aldridge-Brownhills (Mr. Shepherd).

Ms. Diane Abbott (Hackney, North and Stoke Newington): I doubt it.

Mr. Patten: Wait and see.

We explained in the White Paper—a document long since forgotten in our debates—why we did not consider it right to give blanket protection to information provided by individuals. I am sure that my hon. Friend is aware of the arguments that were adduced in the White Paper. I am sure that it is better for Parliament to look at particular kinds of such information individually and decide whether it is right to give it the protection of the criminal law. I shall develop that argument and then make some announcements to the House.

The elements of the offence, and of any relevant defences, need to be considered in the context of the purposes for which the information is supplied, in the first place and the circumstances in which it, quite properly, might be disclosed. The new clause tabled by my hon. Friend also outlines the circumstances under which information should be properly disclosed.

As my hon. Friend the Member for Aldridge-Brownhills suspected—it was also implicit in the contribution by the hon. Member for Birmingham, Erdington (Mr. Corbett)—there are already a number of individual offences that protect information provided to Government under statutory requirement or for some other purpose. My hon. Friend the Member for Aldridge-Brownhills mentioned census information, which is already protected by the Census Act 1920. There are other examples that might interest my hon. Friend. Section 74 of the Airports Act 1986 makes it an offence, subject to certain exceptions, to disclose information obtained from airport operators by, amongst others, the Civil Aviation Authority. We have had a brief discussion of value added tax during the previous debate and section 44 of the Value Added Tax Act 1983 makes it an offence to disclose information obtained by the business statistics office of the Department of Trade and Industry for the business register or any other statistical survey other than to a Government official who needs it for that purpose. In practice where prosecutions are brought for the disclosure of the categories of personal information referred to by my hon. Friend, they are normally brought under those specific offences. It is extremely rare that such offences are brought under section 2 of the Official Secrets Act 1911.

My hon. Friend's new clause would bring back the blanket protection in a manner that would not be consistent with our proposals. As we said in the White Paper, in general the civil remedies available to those who provide the information and the disciplinary procedures that penalise disclosure by a Crown servant provide sufficient protection for private information.

Mr. Richard Shepherd rose—

Mr. Patten: I shall develop this argument before I give way to my hon. Friend.

In the White Paper we acknowledged that there are circumstances where, as the Franks committee argued, it is in the public interest that private information should be given the protection of the criminal law. I do not believe that anyone would dissent from the view that in certain circumstances such information should be given the protection of the criminal law.

Mr. Birmingham indicated assent.

Mr. Patten: I am glad that I have the assent of the hon. Gentleman. We see no reason why all such information should automatically be given that protection. Generally we believe that Parliament should have a selective attitude when considering the nature of the information that may be provided and the harm likely to arise from its disclosure.

The new clause contains no test of harm. It protects every piece of information that is provided in the broad circumstances covered by the clause. I am sure that right hon. and hon. Members on both sides of the House would agree that a person who provides information about himself or herself to a public official has the right to expect



FROM: J M G TAYLOR

DATE: 27 February 1989

PS/FINANCIAL SECRETARY

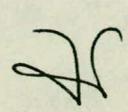
cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gilhooly
Miss Hay
Mr Michie
Mr Call
Mr Tyrie

Mr Harvard - C&E

Mr Rogers - IR
Mr Hutton - IR
Mr McManus - IR

FINANCE BILL STARTERS 63 AND 452: PROTECTION OF TAXPAYER
INFORMATION: PURPORTED INFORMATION

The Chancellor has seen Mr Gilhooly's note of 24 February, and Mr Hutton's note of the same date. He notes (paragraph 8 of Mr Gilhooly's note) that one argument for excluding purported information is said to be that this would go further than existing law does. He has commented that he does not think this is as powerful as might be supposed. The existing law is concerned with essentially Government information, where it would indeed be wholly unnecessary to cover purported information. When we come to private information, and the protection of the individual citizen, different considerations apply.


J M G TAYLOR



FROM: J M G TAYLOR
DATE: 27 FEBRUARY 1989

bf 3/3

PS/ECONOMIC SECRETARY

cc PS/Sir P Middleton
Mr Wicks
Mr Scholar
Mr Peretz
Miss O'Mara
Mr Michie
Mr Rich
Mrs Chaplin

Mr Patterson - DNS
Mr Jenkins - Tsy Sol

FINANCE BILL STARTER 656: NATIONAL SAVINGS ORDINARY ACCOUNT INTEREST

The Chancellor has seen your note of 21 February.

2. He has commented that, although it is perhaps annoying that the banks are moving over to paying interest on current accounts, people are quite used to the idea of there being no interest.

3. Is this measure included in Chapter 4 of the FSBR - or elsewhere in the FSBR?

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

J M G TAYLOR

FROM: MISS T A M POLLOCK
DATE: 27 February 1989

- 1. MR MICHIE *24/2*
- 2. MR GILHOOLY *27/2*
- 3. FINANCIAL SECRETARY

- cc PS/Chancellor
PS/Chief Secretary
PS/Economic Secretary
PS/Paymaster General
Sir Peter Middleton
Sir Terence Burns
Mr Anson
Mr Wicks
Mr Scholar
Mr Culpin
Mr Pickford
Mr Matthews
Miss Hay
Mr Macpherson
Mr Flanagan
Mr Sedgwick
Mrs Chaplin
Mr Call
Mr Tyrie

*Per memo on 24/2
W. S. M. 27/2
as per memo
7 pp.*

- PS/IR)
- Mr Isaac - IR)
- Mr Painter - IR)
- Mr Beighton - IR)*
- Mr G Bush - IR)
- Mr McManus - IR)
- Mr McNicol - IR)
- Mr Shaw - IR)

Ch. According to IR, because there are "lots of consequentials". (The example they gave was that there was a need for consequential amendment to the legislation relating to tax treatment of American Depositary Receipts).

- PS/Customs)
- Mr Jefferson-Smith - C&E)*
- Mr Wilmott - C&E)
- Mr P R H Allen - C&E)
- Ms French - C&E)

Mr Jenkins - Parly Counsel

* reference sheets not attached

1989 FINANCE BILL

I attach updated Budget starters summary sheets covering all departments, together with:

- (a) reference sheets for 1 new Customs starter and 1 new Inland Revenue starter:

No 43 - Car Tax: Relief for Vehicle Leased to the Disabled.

No 405 - Payments to fund Netherland Antilles Eurobond Interest.

(b) a revised index for Customs and the Revenue.

Numbers of starters

3. You may wish to note that out of a total of 133 starters, decisions have now been taken to include 78 (5 provisionally) and to drop 47. This leaves 8 awaiting a decision (together with some loose ends on a number of starters).

Instructions to Counsel

4. Parliamentary Counsel have confirmed that they have received instructions on the following starters:

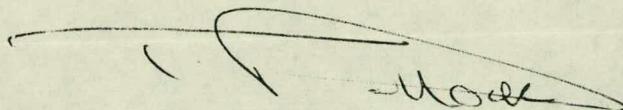
	Received in part or full	Not received*
Revenue	43	5 (+ 1 not required - Treasury Order)
Customs	16	1 (+ 4 not required - Treasury Order)
Transport	9	0
Treasury	7	0

(* excluding those dropped).

Of those starters received by Parliamentary Counsel, 29 have now been drafted.

Size of the Bill

5. Our tentative estimate of the size of the Bill is that it will now be in the order of 230 pages (including schedules). Inland Revenue are expected to account for around 174 pages.

A handwritten signature in black ink, appearing to read 'T A M Pollock', written over a horizontal line.

MISS T A M POLLOCK

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

Date 24 February 1988

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm.	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
			1989/90	1990/91	1/4/90	1/4/91				
1.	Excise: duty rates	UCM	16.12.88	+1225	+1325	Nil	Nil	1 1/2 pages and 12 pages of schedules	14.2.89 (part - retrol)	1989-90 revenue yield based on revalorisation of 6.8%. 1990-91 yield based on Autumn Statement methodology.
2.	Excise: power to estimate revenue duties payable	I	6.10.88	Neg	Neg	Nil	Nil	13 lines	Drafted	
3.	Excise: restriction of duty-paid blending of made-wine	I	29.9.88	Neg	Neg	Nil	Nil	1/2 page	Drafted	
4.	Excise: measurement and declaration of original gravity of beer	I	6.10.88	Neg	Neg	Nil	Nil	10 lines	Drafted	
5.	Excise: misdescription of substances as beer	I	14.10.88	Neg	Neg	Nil	Nil	3 lines	Drafted	

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

Date 24 February 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

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No.	Description	Status	Date main subm	Revenue £m		Staff Effect		Legislation		Other Comments
				cost(-)/Yield(+) 1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
33.	VAT: adjustment of input tax on capital goods	I	17.8.88	Nil	Neg	Nil	Nil	Treasury Order		Implementation from 1.4.90
34.	VAT: revalorisation of registration/deregistration thresholds	I	31.1.89	Neg	Neg	Nil	Nil	None (Treasury Order)		
35.	VAT:simplification of registration requirements	I	14.10.88	-35	-100	Neg	Neg	2 pages and 1/4 page of schedule	17.11.88	
36.	Right to repayment of VAT/excise duties and consequential changes	I	1.9.88	Nil	Nil	Nil	Nil	2/3 page	Revised instructions awaited	For inclusion in final version of Finance Bill.
37.	VAT: bad debt relief	I*	14.10.88	-50	-150	+10 (perm)	+20	1 1/2 pages	25.10.88	
38.	VAT:review of default surcharge	I	4.1.89	-20	- 20	Nil	Nil	10 lines	9.11.88 21.11.88	Interim subm. 21.11.88 Surcharge liability notice part dropped.

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

Date 24 February 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m		Staff Effect		Legislation		Other Comments
				cost(-)/Yield(+) 1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
39.	Duty and tax relief for diplomats and visiting forces	I	21.10.88	Nil	Nil	Nil	Nil	3 pages	21.12.88	
40.	VAT:research and development cars	I	31.8.88 (24.2.89)	-5	-5	Nil	Nil	None (Treasury Order)		
41.	VAT:passenger transport	D	2.11.88	Depends on decisions		N/K	N/K	N/A		Instns to Sol- icitor's Office 7.12.88
42.	Car tax: rate change	D	3.10.88	Depends on decisions		Nil	Nil	N/A		
43.	Car tax: relief for vehicles leased to the disabled	I		-5	-10	Neg	Neg	1/2 page	23.2.89 (draft)	Instructions with Solicitor's Office. To Parl. Counsel by 27.2.89.
60.	Prosecution time limits	I*	11.11.88	Nil	Nil	Nil	Nil	1 1/4 pages	1.11.88	
61.	Seizure at export of probable cash proceeds of drug trafficking.	I*		Nil	Nil	Nil	Nil	1/2 page		Interim subm. 7.11.88 Further submission to be made. For possible inclusion at Committee Stage.

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

Date 24 February 1989

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date main subm	Revenue £m		Staff Effect		Legislation		Other Comments
				cost(-)/Yield(+) 1989/90	1990/91	1/4/90	1/4/91	Length	Date Inst. sent to Counsel	
62.	London Port banking: amendment to CEMA Section 17	I	21.9.88	Nil	Nil	Nil	Nil	6 lines	Drafted	
63.	Unauthorised dis- closure of confidential information	D	25.11.88	Nil	Nil	Nil	Nil	1 page	N/A	Included in starter 452

BUDGET SECRET

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub ^{mn}	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
111	Testimonials for sportsmen	D	16.11.88	---	---	---	---	---	N/A	
112	Review of Employee Share Schemes	I	6.12.88	Neg	Neg	Neg	Neg	3/4 page	8.2.89	
113	Employee Share Option Plans (ESOPs)	I*	6.12.88	Cost depends on selection from range of possible tax reliefs and on take-up. Currently unpredictable		Possibly + 2 to 3 Inspectors		Up to 5 pages	24.2.89 (part)	
114	Taxation of employee priority in company flotations	I	8.9.88	Neg	Neg	Nil	Nil	3/4 page	Drafted	
115	Employees' material interest	I	6.12.88	Neg	Up to -5	Nil	Nil	Up to 1 page	17.1.89	

BUDGET SECRET

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11	
No	Description	Status	Date of main sub ^{mn}	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments	
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel		
116	Amendments to PRP	I	7.7.88	-10	-15	(Some staff cost likely)		7 pages	4.8.88 11.8.88 20.12.88 24.1.89 31.1.89		
117	Mortgage interest relief limit for 1989-90	I	10.11.88	<u>Limit unchanged at £30,000</u>		Nil	Nil	Nil	Nil	Few lines	Drafted
				<u>Increase to £35,000</u>		-320	-400	-5	-5		
				<u>Increase to £40,000</u>		-530	-690	-10	-10		
118	Trusts: general review	I	25.11.88	Neg	Neg	Nil	Nil	Nil	Nil	Perhaps 1-2 pages	16.2.89
119	Mixed residence and non-resident trusts	UCM	25.11.88	£10m - and possibly a good deal more - tax at risk if no action taken				Depends on decisions		Perhaps 4-5 pages	

BUDGET SECRET

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub ^{mn}	Revenue £m		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+) 1989/90	1990/91	1/4/90	1/4/91			
150	Charitable covenants	D	12.12.88	---	---	---	---	---	N/A	
151	Charities: covenanted membership subscriptions	I	4.11.88	-5	-10	Neg	Neg	1 page	22.11.88 14.2.89	
152	Tax relief for equity investment	I	18.10.88	-5	-10	Nil	Nil	1/4 page	N/A	Full year staff effect of -30 Changes to be introduced by secondary legislation; primary legislation unnecessary.
153	Pensions: changes to tax rules	I	17.10.88	Neg	Neg	Neg	Neg	12 pages	Several dates in December, January & February	
154	Private medical insurance for over-60s	I	24.11.88	Nil	-40	+10	+25	5 pages	16.12.88 13.2.89	Full year staff effect of +45.

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub ^{mn}	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1989/90	1990/91	1/4/90	1/4/91			
155	Friendly Societies Protection Scheme	D	9.9.88	---	---	---	---	---	N/A	Proposal to be implemented through secondary legislation.
156	Unit trusts: basis of charge	I	9.12.88	Nil	Neg	Nil	Nil	2½ pages	25.1.89	Full year cost £20m
157	Swap Fees	D	4.11.88	---	---	---	---	---	N/A	
158	Charities: payroll giving limit	I	17.1.89	Neg	Neg	Nil	Nil	Few lines	Drafted	
200	Main CT rate for Financial Year 1989	UCM	13.1.89	Yield/cost of 1 per cent change		Nil	Nil	2 lines	Drafted (prov ^{nl})	Full year yield/cost £570m
				10	400					
201	Small companies rate of CT for Financial Year 1989	UCM	13.1.89	Neg	-35	Nil	Nil	1/4 page	Drafted (prov ^{nl})	Full year cost -£55m. Figures relate to change in threshold.

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub ^{mn}	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1989/90	1990/91	1/4/90	1/4/91			
251	CGT: Annual Exempt Amount	I	N/A	Nil* (non-indexed base threshold indexed) +10 (indexed base, threshold frozen)	-10	No staff effect assuming revalorisation, staff addition if not revalorised as follows		Few lines (in event of non revalorisation).	Drafted	Full year cost of £25m. Decision taken at Dorneywood. No submission required.
				* assuming revalorisation		Nil	+10 (+25 in full year)			
252	CGT: Gifts relief	I	24.10.88	Neg	+25	Neg	Neg	10 pages	1.12.88	Full year yield £50m
253	CGT: Qualifying Corporate Bonds	D	8.11.88	---	---	---	---	---	N/A	
254	CGT: Non-resident companies trading in the UK.	I	9.11.88	Substantial revenue at risk if no action taken. (Firm estimate not possible but cost could well exceed £100m a year).		Neg	Neg	6 1/2 pages	23.11.88	
255	CGT: Technical changes associated with rebasing	I	17.10.88	Neg	Neg	Neg	Neg	1 1/2 pages	Drafted	

BUDGET SECRET

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub ^{mn}	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
256	CGT: Chattels exemption	I	20.10.88	Neg	Neg	Modest staff savings		Few lines	Drafted	
257	CGT: Private Residence Relief	D	21.11.88	---	---	---	---	---	N/A	
258	Lloyd's CG treatment	D	15.12.88	---	---	---	---	---	N/A	
259	IHT - threshold and rate	D	2.2.89	---	---	---	---	---	N/A	Statutory indexation to apply. No Finance Bill clause needed.
260	Inheritance tax: liability of trustees	D	2.11.88	---	---	---	---	---	N/A	
261	IHT: Instruments of variation	I	14.11.88	+5	+15	-5	-10	4 pages	20.12.88 9.2.89	Full year yield estimated at £30m. All yield figures highly uncertain.

BUDGET SECRET

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11	
No	Description	Status	Date of main sub ^{mn}	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments	
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel		
262	CGT: sterling non-qualifying corporate bonds	I	18.1.89	Nil	Neg	Neg	Neg	1/4 page	Drafted	Full year yield perhaps £50m eventually	
263	Gifts to Housing Associations	I	26.1.89	Neg	Neg	Neg	Neg	Up to 3/4 page	8.2.89		
264	CGT: capital gains avoidance on sales of subsidiaries	I	30.1.89	Substantial revenue at risk if no action taken		Neg	Neg	Could be 6-12 pages		Legislation likely to be introduced at Committee Stage. Early announcement to be considered.	
300	Stamp duty on houses and land: threshold	D	30.11.88	---	---	---	---	---	N/A		
301	Stamp duty: rate on shares	I	17.10.88	<u>Abolish</u>							
				+10*	-900**	Neg	-30	7 pages	16.11.88	* with 1/4/90 start.	
				** Net of offsetting increases in other taxes							

BUDGET SECRET

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub ^{mn}	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1989/90	1990/91	1/4/90	1/4/91			
354	PRT oil allowance: "Peak Shaver" fields	D	3.11.88	---	---	---	---	---	N/A	
400	Tax deductible from tax credit payments to US companies	I	6.9.88	Without legislation there could be a revenue cost of £15m a year (plus £68m in respect of past years)		Nil	Nil	1/2 page	Drafted	
401	Sovereign immunity	D	12.7.88	---	---	---	---	---	N/A	
402	Individual residence	D	6.12.88	---	---	---	---	---	N/A	
403	EEIG's	D	15.11.88	---	---	---	---	---	N/A	Deferred to 1990.
404	Umbrella funds	I	9.12.88	Possibly +5 a year		+5	+5	1-2 pages	30.1.89	
405	Payments to fund Netherland Antilles Eurobond interest	UCM	21.2.89	Neg	Neg	Neg	Neg	Up to 1/2 page		Proposal to introduce measure at Committee.

BUDGET SECRET

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 24 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main sub ^{mm}	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1989/90	1990/91	1/4/90	1/4/91	Length	Date inst. sent to Counsel	
450	Keith Committee: administrative improvements	I	6.7.88	Neg	Neg	Neg	Neg	32 pages	Several dates in Oct & Nov	
451	Sub-contractor tax scheme	I	14.10.88	Neg	Neg	Neg	Neg	1 page	1.2.89	
452	Unauthorised disclosure of information provided to IR and C&E	I	25.11.88	Nil	Nil	Nil	Nil	2 pages	12.1.89	Joint measure with C&E
453	Deep discounted government and para- statal bonds	I	18.1.89	Nil	+15	Neg	Neg	12 pages	6.2.89 14.2.89 17.2.89	Full year yield uncertain but estimated at £50m
454	Electronic payment of dividends	D	27.10.88	---	---	---	---	---	N/A	
455	Electricity privatisation: miscellaneous taxation provisions	UCM	8.12.88	Depends on decisions but probably small cost.		Neg	Neg	2-3 pages		

BUDGET CONFIDENTIAL

BUDGET STARTERS: SUMMARY SHEETS

DEPARTMENT OF TRANSPORT

Date 24 February 1989

1 2 3 4 5 6 7 8 9 10 11

No	Description	Status	Date of main Submission	Revenue £m		Staff Effect		Legislation Length	Date of Inst. to Counsel	Other Comments
				cost(-)/Yield(+)		1/4/89	1/4/90			
				1989/90	1990/91					
609	Mandatory 2 or 3 year First Licensing	D								N/A
610	Mine Rescue	D	4.11.88							N/A
630	Failure to notify keeper changes	D	4.11.88							N/A
631	Update reference to "registration" to include "registration book"	I	4.11.88	NIL	NIL	NIL	NIL	2-3 lines		Drafted
632	Grass Cutting Vehicles	I	4.11.88	-NEG	-NEG	NIL	NIL	c-4 lines		Nov 88
633	Sale of Registration Numbers	I	4.11.88	+2	up to +12 per year	+NEG	+20	c-4-5 lines s 1½ pages		June 88

BUDGET CONFIDENTIAL

BUDGET STARTERS: SUMMARY SHEETS

HM TREASURY

Date

24 February 1989

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date of main Submission	Revenue £m		Staff Effect		Legislation	Date of Inst. to Counsel	Other Comments
				cost(-)/Yield(+)		1/4/89	1/4/90	Length		
650	ITV Levy	UCM	11.10.88	NIL	+50	NIL	NIL	up to 1 page and 3-4 pages of schedules	15.2.89	Alteration of levy on profits either to a revenue levy or a mixed revenue/profit system
651	Government stock: small estates	I	4.10.88	NEG	NEG	NEG	NEG	12 lines	Drafted	Simplification of the Bank's arrangements for dealing with small holdings of the deceased
652	Gilts redemption Monies: New Procedures	I	4.10.88	NEG	NEG	NEG	NEG	15-20 lines	Drafted	Simplification of current arrangements
653	Gilts Redemption Monies: Payment of Interest on monies due to deceased holders	D	4.10.88						N/A	
654	Redemption 3% 1986-1996: wind up of Annuities Account and Sinking Fund	I	21.10.88	NEG	NEG	NIL	NIL	½ page	18.11.88	

BUDGET CONFIDENTIAL

BUDGET STARTERS: SUMMARY SHEETS

HM TREASURY

Date

24 February 1989

1 2 3 4 5 6 7 8 9 10 11

No	Description	Status	Date of main Submission	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date of Inst. to Counsel	Other Comments
				1989/90	1990/91	1/4/89	1/4/90			
655	Power to use NLF money to purchase and cancel Gilt Edged Securities ahead of redemption	I	6.1.89	NIL	NIL	NIL	NIL	about 6 lines	13.1.89	
656	National Savings: Abolition of minimum interest rate provision	I	6.12.88	NIL	N/K	NIL	NIL	21 lines		Drafted
657	National Savings: Restriction of Investment and Ordinary Accounts to personal holders	I	6.12.88	NIL	NIL	N/K	N/K	8 lines		Drafted

BUDGET STARTER: REFERENCE SHEET

TITLE: CAR TAX: RELIEF FOR VEHICLES LEASED TO THE DISABLED

STARTER NUMBER: 43

CLASSIFICATION

Revenue £m* cost(-)/yield(+)		(Full year)	Staff effect*		Length of legislation*
1989/90	1990/91		1/4/90	1/4/91	
- 5	- 10		Negligible		Up to ½ page
Minister in lead	ECONOMIC SECRETARY			PCTA or equivalent resolution required	NO

ORIGIN OF STARTER: CUSTOMS

BACKGROUND AND COMMENTS:

Vehicles leased to the disabled are currently relieved of VAT but not (except in particular circumstances) of car tax. The main organisation responsible for the provision of vehicles to the disabled, Motability, purchases and subsequently leases some 20,000 cars per annum to disabled persons. Relieving these vehicles of car tax can be expected to lead to a reduction in charges to the disabled and an increase in the number able to take advantage of the scheme.

Although the legislation will reflect VAT law in the sense that it will apply to all vehicles leased to a handicapped person in receipt of mobility allowance or mobility supplement it is likely that only Motability will be able to make use of the concession since that is the sole organisation whose business consists predominantly of the provision of vehicles to the disabled.

OFFICIAL IN LEAD: C J HOLLOWAY
 OFFICIAL IN SUPPORT: M E DEEDMAN
 FP CONTACT: G MICHIE

TELEPHONE 0702 367914
 TELEPHONE 0702 367130
 TELEPHONE 270 4922

*HEALTH WARNING The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

CONFIDENTIAL

BUDGET STARTER: REFERENCE SHEET

Date of issue: 24 February 1989

TITLE: Payments to fund Netherland Antilles Eurobond Interest

STARTER NUMBER: 405

CLASSIFICATION: B1

Revenue fm* cost(-)/yield(+)		(Full year)	Staff effects*		Length of legislation*
1989/90	1990/91		1/4/90	1/4/91	
Neg	Neg		Neg	Neg	Up to 1/2 page

Minister in lead

**PCTA or equivalent
resolution required**

FST

No

ORIGIN OF STARTER: Inland Revenue

BACKGROUND AND COMMENTS:

UK/Netherlands Antilles double taxation agreement terminated in June 1988 with effect from April 1989. Inland Revenue Press Release of 24 June 1988 announcing ~~removal~~, stated that Government would legislate in 1989 Finance Bill to preserve existing tax exemption of interest paid from the UK to 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).

OFFICIAL IN LEAD: P W Fawcett

TELEPHONE 3541 6497

OFFICIAL IN SUPPORT: P A Michael

TELEPHONE 3541 6362

FP CONTACT: Miss M Hay

TELEPHONE 270 4918

* **HEALTH WARNING** The data reports the position at the time of issue of each Reference Sheet and will be updated only if the scope of the Starter changes significantly. Latest information for all items can be found on the Summary Sheets.

Date 24 February 1989

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DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for ~~SOXIXSEXVCEXX~~ Health

CONFIDENTIAL

*Chy see also new minute from
PS/BT, behind*

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

28 February 1989

4/3

Dear Nigel,

PROTECTION OF TAXPAYER INFORMATION FOLLOWING REFORM OF OSA

Thank you for a copy of your letter to the Prime Minister on 17 February proposing the introduction of specific criminal sanctions to protect the confidentiality of taxpayer information.

I am content for your proposal to proceed. It should not interfere in any way with the authorities' exchanges of information with this Department, which in any event usually involve the exchange of aggregated or anonymised data such as the results of enquiries into the levels of doctors' and dentists' practice expenses.

I am copying this letter to recipients of yours.

J *enc.* *L*

CH/EXCHEQUER	
REC.	28 FEB 1989
BY	Mr Hutton I/R
TO	CST, FGT, PNG, EST Sir P. Middleton, Sir T. Burns Dame A. Mueller, Mr. Scholard Mr C. D. Butler, Mr. Culpin Mr. Gilhooly, Mrs. Chaplin Mr. Tyne, Mr. Call Mr. Uwhin C+E, Mr. Howard C+E Mr. Sutherland - Party Counsel Sir A. Battishill I/R Mr. Rogers I/R

KENNETH CLARKE

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



FROM: N D HUGHES
DATE: 28 February 1989

PS/CHANCELLOR

cc: PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gilhooly
Miss Hay
Mr Michie
Mr Call
Mr Tyrie

PS/C&E
Mr Howard - C&E
Mr Brisley - C&E

PS/IR
Mr Rogers - IR
Mr Hutton - IR
Mr McManus - IR

FINANCE BILL STARTERS 63 AND 452 : PROTECTION OF TAXPAYERS
INFORMATION : PURPORTED INFORMATION

The Economic Secretary has seen your note to the PS/Financial Secretary of 27 February. He has commented that the existing Official Secrets Act also covers private information.

2. In addition given that i) the loophole he exposed in his minute to the Financial Secretary applies to the existing law and no-one has slipped through it in over 80 years and ii) the assurances given that purported information would only apply to security; the Economic Secretary is of the opinion that it should be dropped after all.

N D HUGHES
ASSISTANT PRIVATE SECRETARY



Inland Revenue

Personal Tax Division
Somerset HouseFROM: M EVERSHERD
DATE: 1 MARCH 1989

- 4y 1/3/89
1. MR MASSINGALE
 2. FINANCIAL SECRETARY

**FINANCE BILL: ABANDONMENT OF TERM "HIGHER PAID"
FOR BENEFITS THRESHOLD**

1. Miss Feest's note of 20 February recorded that you would like our views on whether the term "higher paid employees" in the benefits in kind legislation could be replaced in this year's Finance Bill, by the term "all except lower paid employees". This would not be a difficult statutory change, but there are some presentational problems and the time scale now makes it difficult for this year.

Technical Considerations

2. Such a change would primarily involve amending S.167 of the Income and Corporation Taxes Act 1988, which defines the expression "director's or higher-paid employment" for the whole of the benefits legislation. A copy of S.167 is attached. In addition to amending S.167 itself there would be a number of consequential amendments to references to "higher-paid" throughout the Chapter of the Act dealing with benefits.

3. Because any amendment would affect the whole chapter on benefits, Counsel's view is that it would be inappropriate to include it in the Finance Bill clause on car benefits. The change would, therefore, have to appear as a clause in its own right.

cc PS/Chancellor
Mr Gilhooly
Miss Hay
Mr Tyrie
Mr Jenkins OPC

Mr Painter
Mr Lewis
Mr Massingale
Mr Northend
Mr Stewart
Mr Eversherd
PS/IR

4. As to wording, a phrase such as 'all except lower paid' is itself open to question with the current threshold being retained at £8,500. (That is less than the national average wage.) That the only precise alternative "employees earning at a rate of £8,500 a year or more" is clumsy does not help. There might therefore be virtue in adopting a neutral formulation such as 'employees to whom this chapter applies'. But even then there would be difficult presentational considerations.

Presentation

5. The reference to 'higher paid' employees as those earning £8,500 a year or more is clearly absurd and causes problems both in the House and in correspondence. The phrase causes widespread hostility amongst taxpayers: where the view is that it is wrong to tax the value of benefits supplied to those who are only modestly paid. The perception is that if you are not higher paid in fact then the legislation does not really have you in mind as a subject of charge.

6. But we have identified a number of points which you will wish to consider before deciding whether and how to go ahead on this issue.

Risk of signalling a change of policy

7. Present policy is to allow the threshold to 'wither on the vine' so that as time goes by the body of taxpayers for whom there is broad neutrality as between payment in cash and in kind increases. A change in the statutory formulation of the threshold may be seen as a signal that the 'lower-paid' might expect a permanent exemption from the charge to tax on benefits. Alternatively there may be puzzlement amongst those who support the present policy about a 'smartening up' of the threshold now.

Risk of criticism for a purely cosmetic change

8. The argument is likely to be run that the change is merely to cover up the effects of inflation on the threshold. At a time when inflation figures are particularly sensitive you may not wish to provide the opportunity for this point to be made. There may also be criticism of alternate phrases such as 'all except lower paid'. Some will argue that employees on just over £8,500 are themselves 'lower paid'. (A neutral formula would help but not entirely proof the change against such criticism.)

Abolition of the threshold

9. A more fundamental option, and one entirely in line with the logic of current policy would be to abolish the threshold so that benefits became chargeable at all income levels. There are two main difficulties with such a course.

10. First there is a greatly increased compliance burden for employers and administrative burden for the Revenue by virtue of the large numbers of employees who would newly be brought into the P11D field. Second, there would clearly be large numbers of 'losers' all of whom would have low earnings. The sudden increase in tax liability for many of these could cause real hardship until pay and benefits packages adjusted to the new circumstances.

11. In 1987, when the question of abolition of the threshold was last looked at in detail, the number of additional employees for whom a P11D would need to be returned if the threshold were abolished was tentatively estimated at 350,000 in 1987-88. The long-run staff cost was estimated at 80-100 units and the additional tax yield £50 million. Since then the increase in the car scales in 1988-89 and the proposed increase in 1989-90 will have together reduced the number of

benefits cases remaining below the threshold by about 50,000. And the growth in earnings will have reduced it still further. By 1990 we expect that under 10 per cent of people receiving benefits will be below the threshold. By 1995 the numbers seem likely to be negligible.

12. As the current policy gradually erodes the number of untaxed benefits, abolition could be seen as coming more closely within practical reach. It may be that you would wish to consider announcing abolition to take effect in a future year thereby allowing employers, employees and the Revenue time to prepare.

13. If you see no prospect of abolition in this Parliament then there would be more point in going ahead with a definitional change now. But if there is any prospect of abolition we suggest that is looked at as a possible starter for the 1990 Bill with the possibility of a definitional change then if Ministers decide against abolition.

Conclusion

14. Our assumption is that you will not wish to add to the work of getting the Finance Bill ready for publication within the very limited timescale now available. A definitional amendment could be introduced at Committee Stage. But this might give a provision aimed simply at tidying up an awkwardness in statutory wording undue prominence and attract more attention to it.

15. The alternative course would be to look at the definition for next year's Bill when the possibility of abolishing the threshold altogether could also be examined.

Questions for decision

16.. The following matters require your decision:

CONFIDENTIAL

- Do you wish to bring forward a provision in this year's Bill to excise 'higher-paid' from the Schedule E benefits legislation?
- If so, are you content that this should be at committee stage and with a neutral formulation?
- If not, should we look at this whole question further with either abolition or a change in definition as possible starters for next year's Bill?

M. E. L.

M EVERSLED

167.—(1) In this Chapter “director’s or higher-paid employment” means—

(a) subject to subsection (5) below, employment as a director of a company; or

(b) employment with emoluments at the rate of £8,500 a year or more.

(2) For this purpose emoluments are to be calculated—

(a) on the basis that they include all such amounts as come or would but for section 157(3) come into charge under this Chapter or section 141, 142, 143 or, in the case of those in director’s or higher-paid employment, 145; and

(b) without any deduction under section 198, 201 or 332(3).

(3) Where a person is employed in two or more employments by the same employer and either—

(a) the total of the emoluments of those employments (applying this section) is at the rate of £8,500 a year or more; or

(b) one or more of those employments is (apart from this subsection) director’s or higher-paid,

all the employments are to be treated as director’s or higher-paid.

(4) All employees of a partnership or body over which an individual or another partnership or body has control are to be treated for the purposes of this section (but not for any other purpose) as if the employment were an employment by the individual or by that other partnership or body as the case may be.

(5) A person’s employment is not director’s or higher-paid by reason only of its being employment as a director of a company (without prejudice to its being so under subsection (1)(b) or (3) above) if he has no material interest in the company and either—

(a) his employment is as a full-time working director; or

(b) the company is non-profit-making (meaning that neither does it carry on a trade nor do its functions consist wholly or mainly in the holding of investments or other property) or is established for charitable purposes only.

168.—(1) The following provisions of this section apply for the interpretation of expressions used in this Chapter.

(2) Subject to section 165(6)(b), “employment” means an office or employment the emoluments of which fall to be assessed under Schedule E; and related expressions shall be construed accordingly.

(3) For the purposes of this Chapter—

(a) all sums paid to an employee by his employer in respect of expenses, and

(b) all such provision as is mentioned in this Chapter which is made for an employee, or for members of his family or household, by his employer,

PART V
Meaning of
“director’s or
higher-paid
employment”.

Other
interpretative
provisions.



FROM: FINANCIAL SECRETARY

DATE: 2 March 1989

CHANCELLOR

cc

PS/Economic Secretary
 PS/Paymaster General
 PS/Sir P Middleton
 Mr C D Butler
 Mr Culpin
 Mr Gilhooly
 Mrs Chaplin
 Mr Tyrie

*Ch. Content to go along
 with FBT/EBT's conclusions?*

2/3

OK

Sir A Battishill - IR
 Mr B Rogers - IR
 Mr G Bush - IR
 Mr R Hutton - IR
 PS/IR

Mr D Howard - C&E
 Mr R Brisley - C&E
 ps/C&E

**FINANCE BILL STARTERS 63 AND 452:
 PROTECTION OF TAXPAYERS INFORMATION:
 PURPORTED INFORMATION**

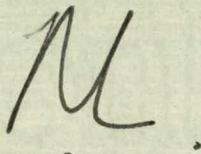
This is a very difficult issue. The Economic Secretary and I have changed sides on the argument several times; but are now both of the view that, on balance, we should not extend the legislation to cover purported information.

Our main reasons are, as follows:-

- a) It will be presentationally better and easier to get through the House if we do not extend the powers. It would certainly be noticed if we went further and we would have to give an explanation for the extension.
- b) It appears unnecessary to have powers of this sort. Neither department has found a need to prosecute in the nearly 80 years that the OSA (which does not cover purported information) has been on the statute book.

- c) If someone did reveal information that was only half true - or turned out to be inaccurate, both departments are advised by their Solicitors that, in principle they would be able to prosecute on that part of the information that was true.

I still have some sympathy with the case for having stronger powers and would not argue that this is necessarily the most complete protection we could give the taxpayer. But, for practical purposes, I think it is likely to prove adequate and anything stronger would provoke a reaction.



NORMAN LAMONT

FROM: N I MACPHERSON

DATE: 2 March 1989

- 1 agreed*
21/3
1. MR GILHOOLY
 2. PS/ECONOMIC SECRETARY

cc PS/Chancellor
PS/Sir P Middleton
Mr Wicks
Mr Scholar
Mr Peretz
Mr Culpin *Mr Riley*
MS O'Mara
Mr Rich
Mrs Chaplin

FINANCE BILL STARTER 656: NATIONAL SAVINGS ORDINARY ACCOUNT INTEREST

You asked whether we were including this measure in Chapter 4 of the FSBR (or anywhere else in the FSBR).

2. At present we are not including it in Chapter 4 since it is not a tax measure, does not have a revenue effect and does not have anything to do with the revenue departments. In this respect it is the same as the other Treasury starters:

651 Government stock : small estates

652 Gilts redemption monies : new procedures

654 Redemption 3% 1986-1996 : wind up of annuities account and sinking fund

655 Power to use NLF money to purchase and cancel gilt edged securities ahead of redemption

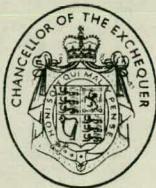
657 National Savings : restriction of investment and ordinary accounts to personal holders.

Of these, only starter 655 is included elsewhere in the FSBR (in Chapter 2: the M~~S~~TFS).

3. If it is decided to put starter 656 in the FSBR, the narrative section of Chapter 4 is probably the best place to put it. The only public expenditure measure in this year's Budget is already there, and so we are over the hurdle of including non-tax measures. However, only the main Budget changes go in the narrative section and I doubt starter 656 fits into this category. I would advise against including it in the FSBR.

Nick Macpherson

N I MACPHERSON


 COPY NO 8 OF 9 COPIES ~~Can't see Xpl~~
M

 FROM: A C S ALLAN
 DATE: 3 March 1989

MR ISAAC - INLAND REVENUE

cc Mr Culpin

 Sir A Battishill - IR
 Mr Corlett - IR
 Miss Hill - IR
 PS/IR
BUDGET: STAMP DUTY

X The Chancellor was most grateful indeed for your minute of 2 March. He is content with the approach you propose, and agrees with the presentation you suggested in your paragraph 4. He also accepts your point that there may in the final event need to be an input at the political level to help fix liability to account for tax on the Stock Exchange itself, or on those "players" fairly high in the chain.

2. He confirms that he is planning to go ahead with the abolition of life assurance stamp duty, as part of the life assurance package.

3. He would be grateful if you could proceed as you propose, with the Financial Secretary in the lead.

A C S ALLAN



FROM: J M G TAYLOR

DATE: 3 March 1989

A large, stylized handwritten signature in the top right corner of the page.

PS/FINANCIAL SECRETARY

cc PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr C D Butler
Mr Culpin
Mr Gilhooly
Mrs Chaplin
Mr Tyrie

Sir A Battishill - IR
Mr B Rogers - IR
Mr G Bush - IR
Mr R Hutton - IR
PS/IR

Mr D Howard - C&E
Mr R Brisley - C&E
PS/C&E

FINANCE BILL STARTERS 63 AND 452: PROTECTION OF TAXPAYERS
INFORMATION: PURPORTED INFORMATION

The Chancellor has seen the Financial Secretary's note of 2 March.
He is content to go along with the conclusion that we should not
extend the legislation to cover purported information.

Handwritten initials, possibly 'JMG', located below the main body of text.

J M G TAYLOR

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



PM

FROM: S M A JAMES
DATE: 3 March 1989

MR MACPHERSON

cc: PS/Chancellor
PS/Sir P Middleton
Mr Wicks
Mr Scholar
Mr Peretz
Mr Riley
Mr Culpin
Mr Gilhooly
Miss O'Mara
Mr Rich
Mrs Chaplin

FINANCE BILL STARTER 656 : NATIONAL SAVINGS ORDINARY ACCOUNT INTEREST

The Economic Secretary was grateful for your minute of 2 March. He agrees that starter 656 should not be included in the FSBR.

A handwritten signature in cursive script, appearing to read "S M A James".

S M A JAMES
Private Secretary



Inland Revenue

Personal Tax Division
Somerset House

FROM: B A MACE
DATE: 7 MARCH 1989

FINANCIAL SECRETARY

FINANCE BILL 1989: INDEPENDENT TAXATION AND OTHER INCOME TAX
PROVISIONS

1. This note is just to mention that the Finance Bill will include a clause which puts values for the personal allowance and married couple's allowance based on 1989-90 allowance figures into last year's legislation for the new structure of income tax allowances under Independent Taxation. I explained that this would be necessary in my submission of 19 February last year (see paragraphs 11 and 12 of the attached extract, top copy only). The clause will also amend the Independent Taxation provisions to take account of the reduction in the rate of withdrawal of age allowance and the extension of the higher level of age allowance to those aged 75 and over.

2. As I mentioned in my submission last year once the 1989-90 allowance figures have been inserted in the Independent Taxation provisions, the legislation will automatically index them to 1990-91 for the start of Independent Taxation.

cc Chancellor of the Exchequer
Chief Secretary
Mr Culpin
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Jenkins (OPC)

Chairman
Mr Painter
Mr Lewis
Mr Bush
Mr Eason
Mr J C Jones
Mr McManus
Mr Hodgson
Mr Wardle
PS/IR

3. The Independent Taxation clause will contain the only reference in the Finance Bill to the 1989-90 allowance figures. As in 1986 and 1987 the indexation provisions themselves automatically bring the new allowance figures into operation for 1989-90 and all that is necessary in the Bill is a brief clause setting the date when the changes take effect under PAYE.

4. The Bill will also contain a separate clause reducing the rate of age allowance withdrawal and extending the higher level of age allowance to those aged 75 and over for 1989-90. Finally there will, of course, be the usual charging provision, reimposing the income tax and setting the rates for 1989-90.

B A Mace.

B A MACE



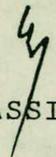
Inland Revenue

Personal Tax Division
Somerset HouseFROM: R MASSINGALE
DATE: 8 MARCH 1989

FINANCIAL SECRETARY

FINANCE BILL: ABANDONMENT OF TERM "HIGHER PAID"
FOR BENEFITS THRESHOLD

1. Following yesterday's meeting where Mr Evershed's note of 1 March was discussed I spoke to Mr Jenkins of Parliamentary Counsel.
2. His view was that it might be possible within the short time remaining to produce a Finance Bill clause, for inclusion in the Bill as published, which would replace "director's or higher paid employment" with a neutral formulation. (This would probably be along the lines "employment to which this chapter applies".)
3. He was prepared to take instructions from us on this basis.
4. Can you please confirm:
 - that we should instruct Counsel
 - that if the clause is not completed for inclusion in the Bill it should not be introduced at Committee but left until next year.


R MASSINGALE

cc PS/Chancellor
Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Jenkins OPC

Mr Painter
Mr Lewis
Mr Ridd
Mr Massingale
Mr Northend
Mr Stewart
Mr Evershed
PS/IR

BUDGET CONFIDENTIAL



FROM: FINANCIAL SECRETARY
DATE: 8 March 1989

CHANCELLOR

Chy
Agree BT?
Agreed
26
8/3

cc Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Jenkins - OPC

Mr Massingale - IR
Mr Evershed - IR
PS/IR

FINANCE BILL: ABANDONMENT OF TERM "HIGHER PAID" FOR BENEFITS THRESHOLD

You will recall that you asked me to look at the possibility of dropping the term "higher paid" from the legislation dealing with benefits in kind.

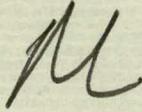
I favour doing this in principle and see no arguments against it. I am, however, not in favour of replacing it with "all except lower paid employees", but prefer a neutral form of words such as "employees earning [at a rate of] £8,500 a year or more".

unless legally necessary ✓
I believe we would save ourselves needless debates and representations in future years if we could make this change.

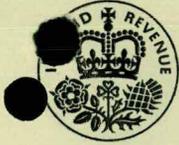
It is going to be a close run thing to get these changes into the Bill as published. In particular, I would advise Parliamentary Counsel that this should not interfere with more important work which must appear in the Bill as published.

Mr Jenkins, has promised to use his best endeavours in order to get the change into the Bill. If, however, he cannot, it is for consideration whether to do it at Committee Stage or next year.

This is very much a matter of judgement, but my own view is that if we can't get it in the Bill as published, we should wait to do it next year. I am of the view that the more Committee Stage amendments there are, the more difficult life becomes. We have quite a few as it is.



NORMAN LAMONT



Inland Revenue

Personal Tax Division
Somerset House*Phf*FROM: R MASSINGALE
DATE: 9 MARCH 1989

PS/CHANCELLOR

FINANCE BILL: ABANDONMENT OF TERM 'HIGHER PAID'
FOR BENEFITS THRESHOLD

1. I refer to Mr Taylor's minute of 9 March to the Financial Secretary's Private Secretary.
2. The definition of employees above the benefits threshold must continue to refer to employees earning at a rate of £8,500 or more to cope explicitly with circumstances such as employments newly taken up at the end of the tax year or retirements at the beginning of the tax year. In such cases the rate of earning may be sufficient properly to bring benefits etc into charge though total earnings of the year may be less than £8,500.
3. We have instructed Parliamentary Counsel on that basis.

g
R MASSINGALE

cc Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Jenkins OPC

Mr Ridd
Mr Northend
Mr Massingale
Mr Evershed
PS/IR



FROM: J M G TAYLOR
DATE: 9 March 1989

A large, stylized handwritten signature in the top right corner of the page.

PS/FINANCIAL SECRETARY

cc Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Jenkins - OPC

Mr Massingale - IR
Mr Evershed - IR
PS/IR

FINANCE BILL: ABANDONMENT OF TERM "HIGHER PAID" FOR BENEFITS THRESHOLD

The Chancellor has seen the Financial Secretary's note of 8 March.

2. He is content to proceed as the Financial Secretary proposes. However, he would prefer the neutral form of words to read simply: "employees earning £8,500 a year or more", unless the more elaborate form is in some way legally necessary.

A handwritten signature, likely of J M G Taylor, located above the typed name.

J M G TAYLOR



A handwritten signature in black ink, appearing to be "Puf".

FROM: MISS S J FEEST
DATE: 9 March 1989

MR B A MACE - IR

cc

PS/Chancellor
PS/Chief Secretary
Mr Culpin
Miss Hay
Mrs Chaplin
Mr Tyrie
Mr Call
Mr Jenkins (OPC)
Mr Wardle - IR
PS/IR

**FINANCE BILL 1989: INDEPENDENT TAXATION AND OTHER INCOME
TAX PROVISIONS**

The Financial Secretary was grateful for your minute of
7 March 1989 and has noted the contents.

A handwritten signature in black ink, appearing to be "Susan Feest".

SUSAN FEEST



FROM: J M G TAYLOR
DATE: 9 March 1989

PS/FINANCIAL SECRETARY

cc Mr Gilhooly
Miss Hay
Mrs Chaplin
Mr Tyrrie
Mr Jenkins - OPC

Mr Massingale - IR
Mr Evershed - IR
PS/IR

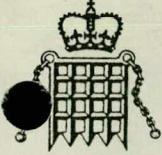
FINANCE BILL: ABANDONMENT OF TERM "HIGHER PAID" FOR BENEFITS THRESHOLD

The Chancellor has seen the Financial Secretary's note of 8 March.

2. He is content to proceed as the Financial Secretary proposes. However, he would prefer the neutral form of words to read simply: "employees earning £8,500 a year or more", unless the more elaborate form is in some way legally necessary.

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

J M G TAYLOR



H.M. CUSTOMS AND EXCISE
DEPARTMENTAL PLANNING UNIT
NEW KING'S BEAM HOUSE, 22 UPPER GROUND
LONDON SG1 9PJ
01-620 1313 Ext 5023

*PRH
have seen M
PRH
PRH*

FROM: P R H ALLEN
Departmental Planning Unit

DATE: 4 April 1989

ECONOMIC SECRETARY

FINANCE BILL 1989: LOBBY NOTES AND NEWS RELEASES

1. Treasury Press Office will issue the usual background notes (this year in the form of a general press release) to accompany publication of the Finance Bill on 13 April.
2. Treasury have asked that we clear texts with Ministers before sending the final version for publication and I accordingly attach our drafts for comment.
3. We also intend (as last year) to issue separate news releases for Finance Bill items not covered by earlier publicity (except for the item on London Port banking which is purely administrative and of no outside interest). These are:
 - a) Statutory right to repayment of VAT, car tax and excise duty;
 - b) Misdescription of beer;
 - c) Estimation of excise duty;
 - d) Time limits for proceedings; and
 - e) Oil duties reliefs.

Circulation: Chancellor ✓
Chief Secretary
Financial Secretary
Paymaster General
Mr Culpin
Mr Gieve
Mr Michie
Mr Macpherson

CPS
Mr Jefferson Smith
Mr Nash
Mr Wilmott
Mr Ferguson
Mr Nissen
Mr Hammond
Ms French
Mr Warr

The relevant policy Division here is sending the draft news release for item a) direct to you. I attach the others for comment.

4. In order to meet the Treasury's (and our) printing deadlines I should be grateful for your response by close Friday 7 April at the latest.

RA.

P R H ALLEN

FINANCE BILL 1989: BACKGROUND NOTES

Clause 1

(1) increases the excise duty on two star and three star leaded petrol; and

(2) reduces the excise duty on unleaded petrol by increasing the rebate in its favour.

These changes came into effect at 6 pm on 14 March 1989. Further details are in Customs and Excise News Release 14/89.

Clause 2 replaces a number of extra-statutory concessions by giving the Commissioners of Customs and Excise the statutory power to allow certain reliefs from excise duty. Further details are in Customs and Excise News Release /89.

Clause 3 clarifies the procedure for determining the original gravity of beer for duty purposes by providing that, where the original gravity is required to be measured both by the saccharometer and by distillation analysis, brewers must use the measurement more favourable to the revenue. Further details are in Customs and Excise News Release 20/89.

Clause 4 provides that made-wines can no longer be blended with other made-wines or wines of different duty strengths after duty has been paid on each of the constituent made-wines or wines. This puts the treatment of made wines on the same footing as wines. Further details are in Customs and Excise News Release 19/89.

Clause 5 by repealing section 73 of the Alcoholic Liquor Duties Act 1979, no longer makes it an offence for anyone describing as beer any substance on which beer duty has not been paid on its total volume. This removes a legal obstacle to the production of "low alcohol beers." Further details are in Customs and Excise News Release /89.

Clause 14 amends section 116A of the Customs and Excise Management Act 1979 so as to apply existing Customs powers to estimate excise duty to all revenue traders, where their documentation is inaccurate, incomplete or missing. Further details are in Customs and Excise News Release /89.

Clause 15 clarifies the law relating to time limits for proceedings. It places beyond doubt that the six month limit for starting proceedings does not apply to triable either way offences taken on summary proceedings. It also provides for a certificate to be given by the prosecuting authority as to the start date of the six month period. Further details are in Customs and Excise News Release /89.

Clause 16 puts the banking arrangements in London Port Collection (one of 20 regional areas into which Customs and Excise is divided) on the same footing as other Collections. The change is of a purely internal and administrative nature.

Clause 17 and schedule 3 makes provision about VAT in relation to buildings and land. They provide that the standard rate of VAT will apply to the sale and construction of new non-residential buildings and civil engineering works with effect from 1 April 1989. Transitional relief will allow zero rating to continue for certain developments where legal commitments had been entered into before 21 June 1988. The schedule also provides that, with effect from 1 August 1989, a person who would otherwise make an exempt supply of an interest in a building or land can opt to tax that supply, except in the case of housing and certain other buildings still qualifying for the zero rate when new. From the same date, the use of land to build new standard rated buildings or civil engineering works will in limited circumstances be taxed on a self-supply basis. The schedule also makes a number of minor amendments to the VAT treatment of land. Further details are in Customs and Excise News Release 5/89 and associated papers.

Clause 18 applies the standard rate of VAT to supplies of water and of sewerage services where these are supplied to industrial

businesses falling within Divisions 1 to 5 of the "Standard Industrial Classification" (1980 Edition). The changes affect supplies made on or after 1 July 1990. Further details are in Customs and Excise News Release 5/89 and associated papers.

Clause 19 applies the standard rate of VAT to supplies of news services made on or after 1 April 1989. Further details are in Customs and Excise News Release 5/89 and associated papers.

Clause 20 applies the standard rate of VAT to supplies of fuel and power other than for domestic use (as defined) or for use by a charity for non business purposes. The changes affect supplies made on or after 1 July 1990. Further details are in Customs and Excise News Release 5/89 and associated papers.

Clause 21 applies the standard rate of VAT to supplies of protective boots or helmets made to employers which are for use by their employees. The changes affect supplies made on or after 1 April 1989. Further details are in Customs and Excise News Release 5/89 and associated papers.

Clause 22 amends the civil penalty provisions of the Finance Act 1985 to provide that a person giving an incorrect certificate of entitlement to zero rating for supplies of fuel and power, construction services or new buildings, shall be liable to a civil penalty. Further details are in Customs and Excise News Release 5/89 and associated papers.

Clause 23 provides that, where a person has paid VAT to Customs and Excise by mistake, Customs and Excise are liable to repay it, except where the taxpayer would gain unjust financial benefit if the repayment were made. It also empowers Customs and Excise to make regulations about how claims for repayment should be made and about the documentary evidence required. The changes will come into force by Treasury Order at a date to be decided. Further details are in Customs and Excise News Release /89.

Clause 24 amends the VAT Act 1983 to allow Customs and Excise to make regulations restricting the recovery of input tax on supplies which a partly exempt business makes to itself (self-supplies). Any regulations will, subject to Parliamentary approval, allow recovery of tax only to the extent allowed by a business's partial exemption method. Further details are in Customs and Excise News Release 22/89.

Clause 25 provides that, where certain conditions are met, cars bought for leasing to the disabled should be relieved from car tax. The new relief applies from 1 April 1989. Further details are in Customs and Excise News Release 16/89.

Clause 26 makes statutory provision for a number of duty and tax reliefs currently granted to diplomats, members of international organisations and visiting forces by means of extra-statutory class concessions. It also introduces a power to counter abuse of these reliefs by imposing conditions with sanctions for breaches of them. Further details are in Customs and Excise News Release 21/89.

Clause 27 provides for the repayment of any excise duty or car tax overpaid by mistake except where the taxpayer would gain unjust financial benefit if the repayment were made. The changes will come into force by Treasury Order at a date to be decided. Further details are in Customs and Excise News Release /89.

FINANCE BILL 1989: ALCOHOLIC DRINKS
MISDESCRIPTION OF BEER

This year's Finance Bill, which was published today, includes provisions to repeal section 73 of the Alcoholic Liquor Duties Act 1979 (ALDA), so that it is no longer an offence to describe any drink as beer where beer duty has not been paid on its total volume.

It is currently an offence under section 73 of ALDA to describe a substance as beer unless beer duty has been paid in respect of the whole of its volume. However, no excise duty is payable on low alcohol beers with an alcoholic strength not exceeding 1.2 per cent. In law, where traders describe such drinks as beer, they are technically in breach of section 73 of ALDA. Customs have not enforced this section in practice, in line with the Government's aim of encouraging the manufacture of low alcohol drinks.

From Royal Assent, the provision in the Finance Bill removes the offence.

ISSUED BY: HM CUSTOMS AND EXCISE, PRESS AND INFORMATION OFFICE,
NEW KING'S BEAM HOUSE, 22 UPPER GROUND, LONDON SE1 9PJ

TELEPHONE: 01 382 5468/5469/5471

FINANCE BILL 1989: EXCISE DUTIES
ESTIMATION OF EXCISE DUTY

This year's Finance Bill, which was published today, includes provisions to amend section 116A of the Customs and Excise management Act (CEMA) so as to include all revenue traders under existing powers held by Customs and Excise for the purpose of estimating excise duty.

Customs and Excise already have the power under section 116A of CEMA to estimate the amount of excise duty due where excise warehouse keepers or distillers are found not to have made proper returns, kept accurate accounts, records or other documents for excise duty purposes.

The provision does not cover for example, brewers, cider makers, wine or made-wine producers. From Royal Assent, section 116A of CEMA will be amended, giving Customs and Excise power in the circumstances described to estimate duty for all revenue traders. This will place all revenue traders on an equal footing.

BACKGROUND NOTE

Licensed brewers are required to declare the quantity and original gravity of worts (unfermented beer) produced and the duty chargeable. They must also make monthly returns and pay the duty due by the 25th day of the following month. Customs and Excise can require a brewer to produce any book or document whatsoever relating to his brewing business where they consider it necessary for securing the duty.

Licensed wine and made-wine producers and registered cider and perry makers are required to keep records of production,

operations, receipts, deliveries and stockholding. They must keep these records for a minimum of two years and produce them on request. Producers and makers must also submit monthly returns of all cider, perry, wine and made-wine delivered and sold for home use and pay the duty due by the 15th day of the following month.

A small number of hydrocarbon oil traders, in addition to warehouse keepers, who keep revenue records, make returns and occasionally incur duty liability will become subject to this new provision.

ISSUED BY: HM CUSTOMS & EXCISE, PRESS AND INFORMATION OFFICE,
NEW KING'S BEAM HOUSE, 22 UPPER GROUND, LONDON SE1 9PJ

TELEPHONE: 01 382 5468/5469/5471

**FINANCE BILL 1989: MISCELLANEOUS
TIME LIMITS FOR PROCEEDINGS**

This year's Finance Bill, which was published today, makes technical amendments to remove doubt in two areas of Customs and Excise legislation.

Summary proceedings must be started within three years of an offence being committed. The 1988 Finance Bill amended section 147 of the Customs and Excise Management Act (CEMA) to further provide that summary proceedings must be started within six months of sufficient evidence to warrant proceedings coming to the attention of the prosecuting authority.

Clause 15 of the Finance Bill 1989 proposes a further amendment to section 147 of CEMA to place it beyond doubt that the six-month limit applies only to proceedings for summary offences. It does not apply to the more serious "triable-either-way" offences, (ie those which can be taken on indictment or summary trial) when they are taken on summary proceedings.

The clause also allows for a certificate signed on behalf of the prosecuting authority to be conclusive evidence admissible in court as to the date on which sufficient evidence came to light. Prosecuting authority is defined to mean the Commissioners of Customs and Excise in England, Wales and Northern Ireland, and to include the Procurator Fiscal in Scotland.

**ISSUED BY: HM CUSTOMS AND EXCISE, PRESS AND INFORMATION OFFICE,
NEW KING'S BEAM HOUSE, 22 UPPER GROUND, LONDON SE1 9PJ**

TELEPHONE: 01 382 5468/5469/5471

**FINANCE BILL 1989: HYDROCARBON OILS
OIL DUTIES RELIEFS**

This year's Finance Bill, which was published today, includes a provision allowing Customs and Excise to make regulations for the remission or repayment, in whole or in part, of any of the duties charged under the Hydrocarbon Oil Duties Act 1979.

The Act currently provides for a number of reliefs from the effective rates of duty on, for example, oil used by approved persons for industrial purposes. It spells out in detail whether, how and to whom remission or repayment can be granted. It does not however always meet current trade needs, particularly since the 1985 Oil Warehouse Review markedly reduced the number of bonded warehouses for hydrocarbon oils. There are also circumstances when on grounds of equity or international obligation it is desirable to remit or repay duty but there is no legal provision for doing so.

The immediate effect of this provision will be to give Customs and Excise statutory powers to allow reliefs currently available only extra-statutorily. It brings the treatment of hydrocarbon oils into line with other excise duties.

BACKGROUND NOTE

The Hydrocarbon Oil Duties Act 1979 provides for duty to be charged at full rates on oils for use as road vehicle fuel, chiefly petrol and derv. Much lower rates are charged on gas oil and fuel oil, and other oils such as lubricating oil bear an effective nil rate of duty. For historical reasons, the lower and nil effective rates of duty are achieved by allowing a rebate against the full rate of duty.

ISSUED BY: HM CUSTOMS AND EXCISE, PRESS AND INFORMATION OFFICE,
NEW KING'S BEAM HOUSE, 22 UPPER GROUND, LONDON SE1 9PJ

TELEPHONE: 01 382 5468/5469/5471



Inland Revenue

Personal Tax Division
Somerset House

"Special threat"

is the best formulation we have been able

to find in what we always knew

would be a difficult concept to legislate for. We need to take every opportunity to put a,

properly restrictive gloss on it.

FROM: R MASSINGALE
EXT: 6303
DATE: 5 APRIL 1989

1. MR PAINTER *5-4*
2. FINANCIAL SECRETARY

FINANCE BILL PUBLICATION PRESS RELEASE: SECURITY EXPENDITURE AND APPLICATION OF BENEFITS IN KIND LEGISLATION

1. These two benefits in kind matters were not announced in the Budget statement and require Press Releases to coincide with the publication of the Finance Bill. The two drafts are attached for your approval.

Security Expenditure

2. The main point to make in relation to the Press Release is that, particularly in the synopsis, we seek to highlight the limited application of the new reliefs by reference to terrorist or extremist threats arising to employees and the self-employed out of their work. In the legislation this is encapsulated in the phrase 'special threat' which links it to the existing benefit exemption for secure living accommodation.

3. We think that it is important to get this message over in clear terms at the outset.

- cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Culpin
Mr Gilhooly
Miss Hay

- Chairman
Mr Painter
Mr Lewis
Mr McGivern
Mr Northend
Mr Moule
Mr Pearson
Mr Keith
Mr Elliott
Mr Massingale
Mr O'Brien
Mr Evershed
Mr Willmer

Application of benefits in kind legislation

4. This brief Press Release covers the abandonment of the phrase 'higher-paid' in defining employees who must pay tax on the value of benefits in kind.

5. We propose an explicit reference to the policy of not increasing the current £8,500 threshold, as an explanation of the Government's proposed change.

4
R MASSINGALE

*This goes further
than I have
thought of,
J.P.*



INLAND REVENUE

Press Release

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

[3x]

April 1989

INCOME TAX: EXPENDITURE ON SPECIAL SECURITY MEASURES

Some employees, by the nature or circumstances of their work, face a special threat of injury or death from terrorists and other extremist groups who resort to violence. Where an employer provides protection against such special threats, the employee may be liable to income tax on the cost under the benefits-in-kind legislation.

The Finance Bill, published today, include provisions to exempt benefits of this kind from income tax; there is also provision for a corresponding tax relief for the self-employed who incur personal security expenditure in meeting similar special threats arising from their business.

The new reliefs will only apply in exceptional circumstances of the kind outlined above. They are not intended to apply, for example, where an employer makes an employee's home more secure against burglary to protect personal belongings; nor where the provision of security measures is to counter a threat not arising directly from work.

DETAILS OF THE NEW TAX RELIEFS

Those who qualify for the new reliefs

1. The new reliefs will be available only to those employees and self-employed people who face a special threat to their personal physical security which arises directly out of their particular job or business. The Government has in mind in this proposal those who are at a special risk through their work from the activities of terrorists, extremists and other similar groups who resort to violence.

/ Nature of the reliefs to be provided

Nature of the reliefs to be provided

2. For an employee, the relief will exempt from income tax any benefit provided by virtue of the employment which consists of an asset or service made available with the sole intention of meeting a special security threat.

3. For the self-employed tax relief will be available for expenditure incurred on an asset or service provided with the sole intention of meeting a special security threat arising from their trade, profession or vocation. Revenue expenditure will be allowable as a business expense. Capital expenditure on an asset which does not otherwise qualify for capital allowances as machinery or plant will generally attract an annual writing-down allowance of 25 per cent on a reducing balance basis.

Expenditure which will qualify for relief

4. It is intended that the new relief will cover any assets, services and facilities provided to enhance the personal security of those under threat. It could include, for example, alarm systems, bullet-resistant windows in houses, flood-lighting, security guards and similar facilities. As well as the initial cost of assets, any running costs will also qualify. The relief will apply whether facilities are made available at the home of the taxpayer or elsewhere.

5. Where assets or services have a dual function and one of those functions is the provision of personal security, an appropriate proportion of the underlying expenditure will qualify for relief.

6. The outright provision of cars, boats, aircraft, and dwellings will not qualify for any special relief but will continue to be dealt with under the normal rules applicable to such assets. However, additions, for instance to property, on account of security will qualify for relief.

IMPLEMENTATION OF THE NEW RELIEFS

7. The new reliefs will apply for both employees and the self-employed in relation to expenditure incurred on the provision of personal security on or after 6 April 1989.

8. Treasury Ministers have authorised the Inland Revenue not to pursue tax liabilities with employees in relation to benefits of the sort which would now qualify for relief for years up to 1988/89 where liabilities are unsettled as at 13 April 1989. Similarly, liability will not be pursued where no action has been taken by 13 April 1989 to assess or collect tax on these benefits. However, no repayment will be made where tax has been paid or is being paid in accordance with the law in force for those years.

/ NOTES FOR EDITORS

NOTES FOR EDITORS

The present tax regime

1. Chapter II Part V ICTA 1988 contains special rules for taxing benefits and expenses payments provided for directors and employees earning at a rate of £8,500 a year or more. Under these rules, the value of a benefit (its cash equivalent) is added to income and taxed at the relevant marginal rate. Benefits are chargeable whether provided to an employee by his employer or by any other person if they are provided by virtue of the employment.

2. Benefits are defined widely to include "domestic or other services, and other benefits and facilities of what nature". It follows that any provision of security facilities to an employee (outside the normal working environment) could be regarded as a chargeable emolument which would without the new relief give rise to a tax liability.

3. The current benefits code already excludes from any charge to tax the provision of living accommodation where there is a special threat to an employee's security, special security arrangements are in force and residence in the accommodation is part of those arrangements. (Section 145(4)(c) ICTA 1988.)

4. At present, where a self-employed person incurs expenditure on personal security at the workplace, relief from tax would depend on the circumstances. If the expenditure was on revenue account it would generally be deductible in arriving at profits for tax purposes. If the expenditure was on capital account it would qualify for Capital Allowances if the asset, not being part of the premises, was machinery or plant, or if it was an addition to an industrial or agricultural building.

5. Where expenditure on personal security is incurred at a self-employed person's home then in most circumstances there would be no relief since the expenditure would not be "wholly and exclusively for the purposes of the trade".



INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB

PHONE: 01-438 6692 OR 6706

[3]

13 April 1989

INCOME TAX: APPLICATION OF BENEFITS IN KIND LEGISLATION

The special rules which tax benefits-in-kind apply to directors and employees earning £8,500 a year or more (inclusive of benefits). This threshold has applied since 1979 and the Government ~~have made it clear that they do not intend to~~ increase it, since in principle all employees should pay income tax on the whole of their earnings, whether received in cash or kind.

Employees within the scope of these provisions are referred to in the legislation as "higher-paid". This expression has become inappropriate, and can be misleading, since £8,500 is well below the national average for full time earnings and the benefits rules now apply to the great majority of employees. The Finance Bill, published today, accordingly contains a provision which deletes references to "higher paid" employees in defining the scope of the benefits legislation. But there is to be no change in the level of the threshold which remains at £8,500.

NOTES FOR EDITORS

1. The special legislation which taxes the benefits in kind of directors and employees earning above an income threshold was introduced in 1948. At that time the legislation was confined to directors and employees with substantial earnings because benefits were largely confined to directors and very senior employees. The term 'higher-paid' was introduced in 1976 when the legislation on taxation of benefits in kind was generally overhauled.

2. The special rules for taxing benefits-in-kind are now in Chapter II of Part V of the Income and Corporation Taxes Act 1988. Section 167 defines the directors and employees to whom these rules apply. Clause 49 of the Finance Bill substitutes a new section 167 for 1989-90 and subsequent years.

FROM: ROBERT CULPIN (FP)
DATE: 11 April 1989
EXTN: 4419

CHANCELLOR

cc: Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Mr Scholar
Mr Peretz
Miss O'Mara
Mr Gieve
Mr Gilhooly
Mr Macpherson
Mr R Evans

Ch. A boring PN on 'X'? Or no PN?

EST (I had better check this in depth)

FINANCE BILL PRESS NOTICES

I attach:

- (a) a list of measures which will effectively be announced for the first time when the Finance Bill is published on Thursday;
- (b) a list of measures which were not in the Budget speech or the FSBR but were covered in Budget Day press notices; and
- (c) a list of press notices which will be issued on Thursday giving further details on things which have already been announced.

2. One point stands out. We have umpteen press notices on trivia, but no clean announcement of the abolition of our obligation to pay interest on National Savings ordinary accounts.

X /

3. This follows your decision to present the change in a low key way. It is entirely defensible in its own terms, and the Economic Secretary has explicitly accepted MG's advice that there is no need in principle for a press notice. We have a defensive brief in hand. But judged against all the other things on which we are issuing press notices, are you sure this is the right treatment?

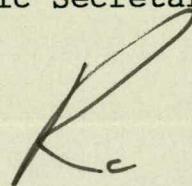
4. The alternative would be to have a single po-faced press notice going through all the minor Treasury measures, based in large part on the presentation which has already been agreed for the Lobby notes. We could make this look completely boring, and bury the National Savings change within it. Its sole purpose would be to deflect the potential charge that we are sneaking through a nasty and controversial measure to rob pensioners of even the miserable 2½ per cent we are at present paying them on their savings.

5. I have discussed this with Miss O'Mara. We do not think the issue enormously important; but when we look at all the other things which are covered by press notices, we think it only sensible to ask specifically whether you want a press notice on the Treasury measures, if only for consistency.

6. Miss O'Mara tells me there is one other consideration. The DNS is announcing tomorrow (Wednesday) that the minimum purchase of premium bonds is going up from £10 to £100, and that premium bond gift tokens are being abolished. So we shall have two National Savings announcements in two days, and both could be seen as anti-small-saving. I understand the DNS are making the premium bond announcements tomorrow to tie in with a meeting of the Federation of Sub-postmasters.

7. The question for Thursday, therefore, is whether it is better to have no press notice, in the hope that nobody notices, but with the risk that you could be accused of sneaking things through, or to put out a deadpan press notice which would be deliberately boring, but would make the Treasury practice a bit closer to that of the Revenue and Customs. Which would you prefer?

8. If you want a Treasury press notice, Miss O'Mara will arrange for a draft to go to the Economic Secretary.

A handwritten signature in black ink, appearing to be 'Rc', written in a cursive style.

ROBERT CULPIN

CONFIDENTIAL

ANNEX A

ANNOUNCED FOR FIRST TIME IN FINANCE BILL

Starter No	Title	No of pages	Press Notice on 13 April
<u>Customs & Excise</u>			
2	Excise: power to estimate revenue duties payable	¼	Yes
5	Excise: misdescription of substances as beer	8 lines	Yes
6	Excise: oil duties relief	1½	Yes
36	Right to repayment of VAT/ excise duties and consequential changes	1	Yes
60	Prosecution time limits	1½	Yes
62	London Port banking: amendment to CEMA Section 17	6 lines	No
<u>Inland Revenue</u>			
103	Benefits in Kind - Security expenditure	4½	Yes
120	Benefits in kind threshold: abandonment of "higher paid"	1½	Yes
<u>Treasury</u>			
651	Government stock: small estates	12 lines	No
652	Gilts Redemption Monies: new procedures	15-20 lines	No
654	Redemption 3% 1986-1996 wind-up of Annuities Account and Sinking Fund	½	No
656	National Savings: Abolition of minimum interest rate provision	29 lines	No
657	National Savings: Restriction of Investment and Ordinary share accounts to personal holders	8 lines	No

CONFIDENTIAL

ANNEX B

ANNOUNCED IN BUDGET DAY PRESS NOTICES BUT NOT IN SPEECH OR FSBR

Starter No	Title	No of pages
Inland Revenue		
118	Trusts: General review	3
209	Capital allowances: pre consolidation amendments	9½
212	Re-opening of claims etc	2
451	Sub contractor tax scheme	2½

Transport

601	Trade Licensing	few lines
605	Recovery Vehicles	4-6 lines
631	Update reference to "registration" to include "registration book"	2-3 lines
632	Grass Cutting Vehicles	4 lines

CONFIDENTIAL

ANNEX C

SUPPLEMENTARY PRESS NOTICES ON 13 APRIL

No	Title	No of pages
<u>Inland Revenue</u>		
108	Schedule E: Receipts Basis (may also include new clause to correct defect in legislation)	9 ($\frac{1}{2}$)
113	Employee Share Option plans (ESOP's)	10
154	Private medical insurance for over 60's	5
206	Close company legislation	8
452	Unauthorised disclosure of information provided to IR and C&E	2
<u>Department of Transport</u>		
	Sale of registration numbers	1 $\frac{1}{2}$

Ch. Lawyers are concerned that deleting "if any" could give rise to criticism -

FROM: R D KERLEY (MG1)

DATE: 12 April 1989

X 4614

This draft has been cleared with DNS and the Bank

- 1. MISS O'MARA (MG1) *ms 14/2* cc
- 2. CHANCELLOR

- Economic Secretary
- Mr Culpin
- Mr Peretz *MG spec. I didn't think I thought you didn't want to print it up unnecessarily. But, in the circs, content to leave the words in?*
- Mr Gieve
- Mr Gilhooly
- Mr Bush
- Mr Devereux
- Ms Ryding
- Miss Anderson
- Mr Patterson - DNS
- Mr Allen - B/E

OK as per

Ch. content? 2/4

FINANCE BILL: PRESS NOTICE ON GILTS AND NATIONAL SAVINGS CLAUSES

I understand you have decided it would be appropriate to issue a Press Notice on the Treasury items in the Finance Bill. I therefore attach a draft Press Notice on the Gilts and National Savings Clauses.

2. You should note that an oblique reference is made in the draft Press Notice to the fact that the powers being taken include the power to pay no interest on the National Savings Ordinary Account. Given the explicit reference in Clause 176 (attached) to this power we do not think it would be advisable to omit all reference to the power completely in the Press Notice.

3. I should be grateful for clearance of the draft as soon as possible, so that the Press Notice can be run off.

R D Kerley

R D KERLEY

No. The sentence is absolutely terrible as it states, & no need for a further A. if answered. Only people making sense to your attention - what is with (no for as answer) when I'm busy.

gilt-edged securities

The Finance Bill, published today, contains a number of technical measures covering ~~gilts~~ and National Savings products.

Gilt redemption procedures

The Bill enables the Bank of England to simplify their current redemption procedures. This will benefit gilt holders and save administrative expenditure in the Bank of England.

Small estates

The Treasury will be taking a power which will enable the Bank of England to transfer stock on its books in the name of a deceased person into another name up to a specified value without requiring probate. This will align the Bank of England's powers, as far as possible, with those of the Department for National Savings for stocks held on the National Savings Stock Register.

National Loans Fund purchases of gilts

In the current circumstances, the Government's "full fund" rule requires the Bank of England to buy in gilts, not issue them. Gilts bought in by the Bank of England are normally held in its Issue Department, but the Issue Department's assets back, and do not exceed, the value of the note issue and are therefore finite in size. Thus powers are being taken to enable National Loans Fund money to be used to buy gilts from the Issue Department ahead of redemption for immediate cancellation.

National Savings

Powers are being taken to enable the opening of future National Savings Ordinary and Investment Accounts to be restricted to personal savers. This brings the arrangements for these accounts into line with those for other National Savings products, for example, the new Capital Bond.

Other changes are being made to bring the setting of interest rates on Ordinary Account into line with practice for other National Savings products. Ordinary Account interest rates, ~~if any~~, will no longer be set by Treasury Order and a minimum rate will no longer be specified in the primary legislation.

Winding up of the Redemption Annuities Account

Following the redemption of 3 per cent Redemption Stock 1986-96 on 1 October 1988, the Treasury are taking powers to wind up the Redemption Annuities Account (through which all transactions in the stock were effected in accordance with the Tithe Act 1936) and to pay the surplus remaining on the Account into the Consolidated Fund before it is closed.

Notes for Editors

These measures are contained in Clauses 175-177 of the Finance Bill. Schedule 17 Parts XIII-XV are also relevant.

The Treasury will also be taking powers to make regulations under the National Debt Act 1972 in relation to redemption procedures for gilts held on the National Savings Stock Register. The current procedures are derived from the 1921 Finance Act, the relevant parts of which are to be repealed under Schedule 17 Part XIII.

The Government's full fund rule is to fund the net total of maturing debt, the PSBR, and any underlying change in the foreign exchange reserves, by sales of debt outside the banking and building society sectors. In current circumstances this total is negative and so 'unfunding' is required; that is, the authorities are making net purchases of debt. Gilts bought in by the Bank of England are normally held in its Issue Department. Issue Department assets back, and do not exceed, the value of notes in circulation and in the Banking Department of the Bank of England (currently about £15 billion).

The current rates of interest on National Savings Ordinary Account are 5 per cent pa for each complete calendar month when the balance is £500 or more (if the account is open for the whole of 1989) and 2½ per cent on all other accounts. These rates were announced on 8 December 1988 and will be maintained for the whole of 1989. In future the Director of Savings will give notice of any changes in rates in the London, Edinburgh and Belfast Gazettes.

(3) After section 14 of the National Loans Act 1968 there shall be inserted—

PART III
1968 c. 13.

5 “Redemption of securities held in Issue Department of Bank of England.

14A.—(1) Any securities of Her Majesty’s Government in the United Kingdom which are for the time being held in the Issue Department of the Bank of England may be redeemed by the Treasury before maturity at market prices determined in such manner as may be agreed between the Treasury and the Bank.

10 (2) Any expenses incurred by the Treasury in connection with the redemption of securities under subsection (1) above shall be paid out of the National Loans Fund.”

176.—(1) In section 2 of the National Savings Bank Act 1971 (general power to make regulations) after subsection (1) there shall be inserted—

National savings accounts.
1971 c. 29.

15 “(1A) Regulations under this section may restrict the classes of persons who may open accounts with the National Savings Bank, but any such restriction shall not apply to any account opened before the coming into force of the regulations imposing the restriction.”

20 (2) In section 5 of that Act (interest on ordinary deposits) in subsection (1) for the words from the beginning to “in any ordinary deposit account” there shall be substituted “The Director of Savings may, with the consent of the Treasury, from time to time determine the rate or rates at which interest is to be payable on amounts deposited in ordinary accounts or
25 that no interest is to be payable on such amounts, and any such determination in relation to amounts deposited in any ordinary deposit account may be made”.

(3) After subsection (1) of section 5 of that Act there shall be inserted—

30 “(1A) The Director of Savings shall give notice in the London, Edinburgh and Belfast Gazettes of any determination under subsection (1) above; and any such determination may affect deposits received at or before, as well as after, the time the determination is made.”

35 (4) Subsection (5) of section 5 of that Act (rate of interest on ordinary deposits to be not less than 2.5 per cent per annum) shall cease to have effect.

(5) Subsections (2) and (3) above shall come into force on 1st October 1989.

40 177. As soon as may be after the passing of this Act, the Treasury shall cause to be wound up the Redemption Annuities Account (which was established under section 25 of the Tithe Act 1936 and which became
45 redundant on the redemption on 1st October 1988 of all remaining stock issued under that Act), and the surplus standing to the credit of that account immediately before it is wound up shall be paid into the Consolidated Fund.

Winding up of Redemption Annuities Account.
1936 c. 43.



HANDLING OF THE FINANCE BILL

Note of a meeting in the Chief Secretary's room on Thursday, 13 April 1989

- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Mr Culpin
- Mr Gilhooly
- Mr Macpherson
- Mr Dyer
- Miss Evans

Mr Denton (IR)

Mr Allen (C & E)

Mr Howarth MP

3 pts:
 1) In order to complete CWH by 2 days, we should work on the time to be taken by the Finance Bill clauses. We should commit to the Opposition so as to prevent any opp. - NC on workplace nurseries. I agree with the advice.

Timing of Committee of the Whole House

The Chief Secretary said that the date for second reading was confirmed as 25 April. Our objective was two days for Committee of the Whole House but the Opposition were likely to ask for three. Mr Howarth said that the Whips were hoping for two days on the 8th and 9th May. The Chief Secretary said that we might need to enlist the Chief Whip's support to secure a two day debate. It was agreed that the meeting with the Opposition to discuss handling should take place the following week, probably on Wednesday or Thursday. Those present would be the Chief Secretary, the Financial Secretary, Mr Howarth and, for the Opposition Mr Brown and Mr Griffiths. The convention was to share the allocation of time equally with the Opposition. If we were unable to secure agreement to two days the extra day would need to be in the week preceding 8 May.

2. The Chief Secretary said that the Opposition were likely to want a debate on the taxation of workplace nurseries. Mr Dyer said that they would be able to table new clauses for CWH only if provision was made in the committal motion. Unless an agreement on this was reached with the Opposition the objective was always to draft the committal motion as tightly as possible to preclude new clauses.

3. On the size of Standing Committee Mr Howarth said that the Whips would prefer a large committee of 44 which made managing business easier.

Clauses for Committee of the Whole House

4. The Chief Secretary said that the best candidates were age allowance, small companies' rate, unleaded petrol and charities. The Financial Secretary said that we should aim to group as many clauses as possible with these. Mr Culpin said that a number of charities clauses should be grouped together since they formed a package which had been well received. The pensions clauses were a further possibility. The Financial Secretary said that the profit related pay or ESOPS clauses would also be helpful for the Government side. The Chief Secretary said that the Opposition would certainly take medical insurance as the first debate on their day. Mr Culpin said that the relief for security expenditure clauses would provide an opportunity for them to raise the lack of tax relief for work place nurseries. The Chief Secretary said we should aim for 4 topics in each full day's debate. On balance, he would prefer to take the pension clauses upstairs.

Membership of the Committee

5. Mr Howarth's proposals were agreed.

Distribution of Clauses

6. The provisional allocation circulated by the Chief Secretary was agreed (attached). If charities were not taken on the floor of the House, it was suggested that clauses 55 and 57 should be taken after chapter I, on the grounds that this would provide a break for the Economic Secretary.

7. We should aim to get out of Committee by 22 June.

8. The Financial Secretary said that the Inland Revenue would be providing him with a list of the number of new Government clauses by the end of the week. The Chief Secretary said that to facilitate progress we should let the Opposition know of Government amendments as soon as possible and send them a clear explanatory letter along with the notes on clauses. Mr Dyer said that we should take care to check whether any of the new clauses required an additional money resolution. The Chief Secretary said that the Opposition were pressing for morning sessions. We had already written opposing this and should continue to resist it strongly in view of the pressure of Government business and the need for briefings in the morning. The Chief Secretary would speak to Mr Crowther.



H M Treasury
17 April 1989

MISS C EVANS
Private Secretary

Distribution:
Those present
Chancellor
Parliamentary Counsel

EST

Clauses

- 20. Fuel and power.
- 21. Protective boots and helmets.
- 22. Incorrect certificates.

Other provisions

EST

- 23. Recovery of overpaid VAT.
- 24. Input tax on self-supplies.

CHAPTER III

MISCELLANEOUS

EST

- 25. Relief from car tax where vehicle leased to the handicapped.
- 26. Reliefs from duties and taxes for persons enjoying certain immunities and privileges.
- 27. Recovery of overpaid excise duty and car tax.

PART II

INCOME TAX, CORPORATION TAX AND CAPITAL GAINS TAX

CHAPTER I

GENERAL

Income tax rates and allowances

FST

- 28. Charge and rates of income tax for 1989-90. —
- 29. Age allowance. *cwh*
- 30. Operative date for PAYE.
- 31. Married couples.

Corporation tax rates etc.

CST

- 32. Charge and rate of corporation tax for financial year 1989.
- 33. Corporation tax: small companies. *cwh*

Receipts basis etc.

FST

- 34. Schedule E: revised Cases.
- 35. Schedule E: assessment on receipts basis.
- 36. Schedule E: unpaid emoluments.
- 37. Schedule E: unremitted emoluments.
- 38. Schedule E: emoluments already paid.
- 39. Schedule E: supplementary.
- 40. Schedule D: computation under Cases I and II.
- 41. Investment and insurance companies: computation.
- 42. PAYE: meaning of payment.

Interest

FST

- 43. Relief for interest.
- 44. Close company loans: business expansion scheme.
- 45. Close company loans: material interest.

Finance Bill

PS/FST
PS/PMG
PS/EST

As discussed
provisional allocation
for discussion
tomorrow

Cavan

PS/FST
PS/PMG
PS/EST

Mr Culpin
Mr Dyer
Mr Macpherson

Mr Howard MP

ARRANGEMENT OF CLAUSES

PART I

CUSTOMS AND EXCISE, VALUE ADDED TAX AND CAR TAX

CHAPTER I

CUSTOMS AND EXCISE

Hydrocarbon oil duties

CWT

This is the latest
version for use at
the CST's meeting
next Thursday.

EST

Clause

1. Rates.
2. Reliefs.

Alcoholic liquor duties

EST

3. Original gravity of beer.
4. Blending made-wines etc.
5. Description as beer.

Vehicles excise duty

EST

6. Rates.
7. Special machines.
8. Recovery vehicles.
9. Powers of Secretary of State with respect to assignment of registration marks.
10. Retention of registration mark pending transfer to another vehicle.
11. Sale by Secretary of State of rights to particular registration marks.
12. Registration documents.
13. Dishonoured cheques.

Cavan

7.4.89.

General

EST

14. Estimation of excise duty.
15. Time limits for proceedings.
16. Disbursements in Port of London.

CHAPTER II

VALUE ADDED TAX

Zero-rating etc.

EST

17. Buildings and land.
18. Sewerage services and water.
19. News services.

Clause

- FST
- 80. Interpretation of sections 81 to 85 and further provisions about insurance companies.
 - 81. Charge of certain receipts of basic life assurance business.
 - 82. Spreading of relief for acquisition expenses.
 - 83. Management expenses.
 - 84. Rate of corporation tax applicable to policy holders' fraction of profits.
 - 85. Shareholders' and policy holders' fractions.
 - 86. Life policies etc. held by companies.

Underwriters

- FST
- 87. Premiums trust funds: stock lending.
 - 88. Regulations about underwriters etc.

Securities

- EST
- 89. Deep discount securities: amendments.
 - 90. Deep gain securities.
 - 91. Treasury securities issued at a discount.
 - 92. Securities: miscellaneous.

Groups of companies

- FST
- 93. Set-off of ACT where companies remain in same group.
 - 94. Restriction on set-off of ACT.
 - 95. Dividends etc. paid by one member of a group to another.
 - 96. Change in ownership of company.
 - 97. Surrender of company tax refund etc. within group.

Close companies

- FST
- 98. Repeal of apportionment provisions.
 - 99. Meaning of "close company".
 - 100. Meaning of "close investment-holding company".
 - 101. Taxation of close investment-holding companies.
 - 102. The distribution test.
 - 103. Excess investment income.
 - 104. Provisions supplementary to sections 102 and 103.
 - 105. Groups which include a close investment-holding company.
 - 106. Close investment-holding companies: restriction on deductions, allowances etc.
 - 107. Restriction on payment of tax credits.
 - 108. Close companies: consequential amendments.

Settlements

- FST
- 109. Outright gifts etc. between husband and wife.
 - 110. Settlements where settlor retains interest in settled property.

Miscellaneous

- FST/CST
- 111. Security: trades etc.
 - 112. Security: trades etc. (supplementary).
 - 113. Relief for pre-trading expenditure.
 - 114. Sub-contractors: regulations.
 - 115. Sub-contractors: deductions.

Benefits in kind

- PMG
- Clause
46. Car benefits.
 47. Security assets and services.
 48. Assets used partly for security.
 49. Security: supplementary.
 50. Employees earning £8,500 or more and directors.

Medical insurance

- CST
51. Relief.
 52. Eligible contracts.
 53. Certification of contracts.
 54. Medical insurance: supplementary.

Charities

- PMG
55. Payroll deduction scheme.
 56. Covenanted subscriptions.
 57. British Museum and Natural History Museum.

Profit-related pay, share schemes etc.

- PMG
- FST
58. Profit-related pay.
 59. Savings-related share option schemes.
 60. Profit sharing schemes.
 61. Share option and profit sharing schemes: shares of consortium member.
 62. Employee share schemes: material interest.
 63. Priority share allocations for employees etc.

Employee share ownership trusts

- FST
64. Tax relief.
 65. Principal charges to tax.
 66. Chargeable events.
 67. Chargeable amounts.
 68. Further charges to tax: borrowing.
 69. Limit on chargeable amount.
 70. Information.
 71. Interpretation.

Pensions etc.

- CST / FST
72. Retirement benefits schemes.
 73. Non-approved retirement benefits schemes.
 74. Personal pension schemes.

Unit trusts etc.

- FST
75. Certified unit trusts.
 76. Gilt unit trusts.
 77. Offshore funds operating equalisation arrangements.

Life assurance

- FST
78. Calculation of profits.
 79. Receipts to be brought into account.

Clause

144. Interpretation.

Assessments, claims etc.

145. Assessments founded on fraudulent or negligent conduct.
146. Further assessments: claims etc.

Distress and poinding etc.

147. Distress for non-payment of tax.
148. Priority in cases of distraint by others.
149. Recovery of tax from debtor in Scotland.
150. Priority in cases of poinding etc. by others in Scotland.

Interest etc.

151. Interest on overdue tax.
152. Effect of certain claims on interest.
153. Small amounts of interest.
154. Interest on tax in case of failure or error.
155. Determinations under TMA s.88.
156. Tax carrying interest under TMA ss.86 and 88.

Penalties

157. Failure to make return.
158. Incorrect return, accounts etc.
159. Special returns, information etc.
160. Special penalties in the case of certain returns.
161. Assisting in preparation of incorrect return etc.
162. Determination of penalties.
163. Amendments consequential on section 162.
164. Time limits.
165. Up-rating of certain penalties.

PART III

MISCELLANEOUS AND GENERAL

Inheritance tax

166. Gifts to housing associations.
167. Alteration of dispositions on death with retrospective effect.
168. Abatement of exemption where claim settled out of beneficiary's own resources.

Stamp duty

169. Insurance: abolition of certain duties.

Interest etc.

170. Setting of rates of interest.
171. Provisions consequential on section 170.
172. Repayment interest: period of accrual.

FST/EST

FST/EST

FST/EST

FST/EST

FST/CST

FST

FST/EST

FST/EST

- Clause
 116. Double taxation: tax credits.
 117. Interest payments to Netherlands Antilles subsidiaries.

CHAPTER II
 CAPITAL ALLOWANCES

FST/CST

118. Security.
 119. Security: supplementary.
 120. Expenditure on stands at sports grounds.
 121. Miscellaneous amendments.

FST

CHAPTER III
 CAPITAL GAINS

*Exemptions*FST

122. Annual exempt amount for 1989-90.
 123. Increase of chattel exemption.

*Gifts*FST/CST

124. Relief for gifts.
 125. Gifts to housing associations.

*Non-residents etc.*FST

126. Non-resident carrying on profession or vocation in the United Kingdom.
 127. Non-residents : deemed disposals.
 128. Non-residents : post-cessation disposals.
 129. Non-residents: roll-over relief.
 130. Exploration or exploitation assets: definition.
 131. Exploration or exploitation assets : deemed disposals.
 132. Dual resident companies: deemed disposal.
 133. Dual resident companies: roll-over relief.
 134. Non-payment of tax by non-resident companies.

*Miscellaneous*FST/CST

135. Corporate bonds.
 136. Collective investment schemes.
 137. Re-basing to 1982 etc.

CHAPTER IV
 MANAGEMENT

*Information*FST/EST

138. Power to call for documents and information.
 139. Power to call for papers of tax accountant.
 140. Restrictions on powers under TMA ss.20 and 20A.
 141. Falsification etc. of documents.
 142. Entry with warrant to obtain documents.
 143. Procedure where documents etc. are removed.

- Part X—Stamp duty: insurance.
- Part XI—Rates of interest.
- Part XII—Broadcasting.
- Part XIII—Government stock: redemption.
- Part XIV—National Savings.
- Part XV—Tithe redemption.

Miscellaneous

	Clause	
CIT	173.	Broadcasting: additional payments by programme contractors.
FST/EST	174.	Disclosure of information.
EST	175.	Government securities: redemption and transfer.
"	176.	National savings accounts.
"	177.	Winding up of Redemption Annuities Account.

General

178. Interpretation etc.
 179. Repeals.
 180. Short title.

SCHEDULES:

- Schedule 1—Vehicles excise duty: rates.
 Part I—Table substituted in Part II of Schedule 2 to the 1971 and 1972 Acts.
 Part II—Table substituted in Part II of Schedule 4 to the 1971 and 1972 Acts.
- Schedule 2—Vehicles excise duty: special machines.
 Schedule 3—Value added tax: buildings and land.
 Schedule 4—Profit-related pay.
 Schedule 5—Employee share ownership trusts.
 Schedule 6—Retirement benefits schemes.
 Part I—Amendments of Taxes Act.
 Part II—Approved schemes : general.
 Part III—Approved schemes : additional voluntary contributions.
- Schedule 7—Personal pension schemes.
 Part I—Amendments of Taxes Act.
 Part II—Schemes approved before passing of this Act.
- Schedule 8—Amendments of Chapter I of Part XII of Taxes Act 1988 (Insurance Companies).
- Schedule 9—Life policies etc. held by companies.
 Schedule 10—Deep discount securities: amendments.
 Schedule 11—Deep gain securities.
 Schedule 12—Close companies: consequential amendments.
 Schedule 13—Capital allowances: miscellaneous amendments.
 Schedule 14—Capital gains tax: gifts etc..
 Schedule 15—Capital gains: re-basing to 1982 etc..
 Schedule 16—Broadcasting: additional payments by programme contractors.
 Part I—Amendments of the principal sections.
 Part II—Provisions inserted as Schedule 4 to the Broadcasting Act 1981.
 Part III—Transitional provisions.
- Schedule 17—Repeals.
 Part I—Customs and excise.
 Part II—Vehicles excise duty.
 Part III—Value added tax.
 Part IV—Income and corporation tax: general.
 Part V—Close companies.
 Part VI—Capital allowances.
 Part VII—Capital gains.
 Part VIII—Management.
 Part IX—Inheritance tax.

UNCLASSIFIED



FROM: MISS C EVANS
DATE: 24 April 1989
EXTN 4339

MP

MR MACPHERSON (FP)

cc: Chancellor
Financial Secretary
Paymaster General
Economic Secretary
Mr Culpin
Mr Gieve
Mr Gilhooly
Mr Ilett
Mr Pickford
Mr Bush
Mr Deane
Mr Tyrie
Mr Call

*Ch/ some pts scribbled.
NB also various bits and pieces for
F&T wind-up attached behind.*

mpw 24/4

Mr Denton - IR
Ms French - C & E

FINANCE BILL SECOND READING: 25 APRIL

*Mr Kuczyk IR
Mr AJ Walker IR*

The Chief Secretary was most grateful to you. and Mr Deane for the draft of his speech which he found extremely helpful. I attach his revise.

2. Could I have essential amendments by 10.00am tomorrow please.

Tuesday

*One or 2
Comments.
① Altho' with a FB, EST SV
could refer to XLC reforms &
base on Antiqua, part of
legislation to prevent
any further...
② Any...
③ I...*

MISS C EVANS
Private Secretary

UNCLASSIFIED

UNCLASSIFIED

4. As a result real living standards are now much higher than ten years ago and have every prospect of improving further.
5. There are two measures that illustrates the improvements we have seen. Firstly, the performance of our economy have been transformed compared with its own performance in earlier years. But secondly, it has also been transformed when compared with the current performance of our competitors. That is why in the 1980s,
- output and investment has grown faster here than in any other major EC country - a marked contrast to the previous two decades
 - manufacturing productivity has grown faster here than in any other major industrial country - even Japan. In all these measures the UK was bottom of the league in the 1960s and 1970s.
 - small businesses are being created at an unprecedented rate. In 1988-89 the net increase, that is after allowing for businesses that closed down, was nearly 70,000 - a record by a large margin. This means that on average, over 1,300 new firms are being set up every week. I cannot imagine that has ever happened before in this country.

1989 FINANCE BILL SECOND READING 25 APRIL 1989

CHIEF SECRETARY'S OPENING SPEECH

I beg to move, that the Bill be now read a second time.

Economy

2. This Bill embodies the legislation that flows from my Right Honourable Friend's Budget. Over the last ten years we have seen a transformation in economic policy and achievement. Policies of demand management and state intervention that failed have been replaced by policies of free enterprise within a sound medium term framework that have succeeded. The underlying performance of the economy has improved dramatically as a result.

3. The evidence for this is over-whelming:

- Output has expanded by over 20 per cent since 1979 - business investment has risen to its highest ever level as a proportion of GDP,
- the public finances are in surplus and not deficit and
- there has been a marked rise in productivity and employment and a drastic reduction in the level of inflation.

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8. Against an international background of rising inflation this was a prudent and cautious Budget. That was undoubtedly the right judgment. Our long term aim is a balanced budget, but in the current circumstances my RHF judged it appropriate to budget for a further year of substantial debt repayment. This means that, in the space of three years, we will have paid back roughly a sixth of the public debt accumulated over two centuries - saving about £3 billion a year in interest payments. The burden of debt interest as a share of GDP will be the lowest since 1915. ^(Debt repayment thus) This both lightens a burden on the shoulders of future taxpayers and, at the same time, ^{in the shorter term} leaves room for higher spending on ^{priority} areas ~~we judge to be priorities, or tax reductions, or further debt repayment.~~

Tax Section

9. Much of the economy's success is a response to the favourable tax structure ~~in this country~~ created by the reforms of my RHF the Chancellor and his predecessors. Over ten years successive Budgets and Finance Acts have broadened the tax base, lowered tax rates and made the tax system more coherent and intelligible. This tax climate is undoubtedly a significant factor in attracting the stream of inward investment recently - continued by Fujitsu, Bosch and Toyota.

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6. This is an outstanding record of success and this year's Budget builds on it. But it was also framed against a background of an unwelcome increase in inflation at home and abroad. Inflation in all the major nations is currently at its highest level for three and a half years. In the UK, current inflationary pressures, although much exaggerated by the perverse effect of mortgage interest payments on the RPI, had their roots in the events of October 1987. At the time of the stock market crash commentators feared that it would precipitate a world wide slide into recession, as it had done in 1929. [It was precisely] ^{The priority was} to avoid that risk ^{and so} that we, along with the other major industrialised countries, ~~deliberately~~ ^{had to} make sure that monetary conditions were not too tight. And we were successful in that aim, in that the effects of the crash were not remotely as bad as we, or anyone else, feared. It is clear that the current strength of the world economy owes much to the prompt and co-ordinated action taken by the major nations in the wake of the crash.

X | [need to add something about how, now, mon. policy tightened around world and here to make sure inflationary pressures brought under control again]

7. 6. The Budget was also framed against the background of the current account deficit. This largely reflects an excess of private sector investment over private sector saving [and not the reckless public spending which was the hallmark of ^{the Party opposite when it was in power.} ~~previous deficits~~] It is thus fundamentally different from those of the 1960s and 1970s. The investment boom we are now experiencing underlines the confidence which domestic and foreign investors have in the UK economy and will stand us in good stead for the future.

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reduction in the marginal tax rate faced by those with incomes in the withdrawal band. I am pleased that the Chancellor's Budget met these concerns.

- 13 11. These changes ensure that pensioners keep more of their own money. ^{They build on what is already an impressive} ~~Since 1979 pensioners have also had~~ increase in pensioners' incomes: ~~more money:~~ between 1979 and 1986 the average net incomes of pensioners has increased by 23 per cent in real terms. By contrast, despite the rhetoric of concern from the benches opposite, when they were in power pensioners had an increase of only 3 per cent.

- 14 12. My Right Honourable Friend's Budget has been hailed as a Budget for the elderly, a view endorsed by The Director General of "Help the Aged" in a recent letter:

"I thought you would appreciate hearing how much we applaud the actions you have taken in your Budget to help pensioners.

We are especially pleased at the abolition of the age related earnings rule and are grateful too for the changes you have made in VAT regulations in connection with charities. This will be of considerable assistance to us in our efforts to help elderly people, both in this country and

10 The 1989 Budget made further progress. It contained a major reform of national insurance contributions and the abolition of the pensioners' earnings rule. The abolition of the earnings rule will be of significant help to pensioners, who will also benefit further from other measures in the Bill.

Age Allowance

11 10 In his 1987 Budget, my Right Honourable Friend recognised the special needs of older pensioners by introducing a new, more generous age allowance for those aged 80 years and over. Clause 29 extends this higher allowance to ^{people aged} ~~people~~ aged between 75 and 79. This will take an additional 15,000 elderly single people and married couples out of tax altogether. In real terms, the age allowance for those aged 75 and over will be 19 per cent higher than in 1978-79. Three quarters of all those aged 75 and over will not be liable to income tax at all.

12 10. The clause also reduces the rate at which the ~~age~~ age allowance is withdrawn for those with incomes above the income limit. It is clearly right to concentrate the benefits of the age allowance on elderly people with relatively modest incomes, but we received a number of representations from Honourable Members calling for a

on waiting lists will be eased, which will benefit all of us who continue to depend overwhelmingly on the NHS for medical treatment.

18 ~~16~~. This new relief has had another effect. It has encouraged the medical insurance industry to introduce policies which are aimed at those who cannot afford or do not want - more expensive cover: some of the policies are intended specifically for people in retirement. Even non-taxpayers will benefit because they, too, will pay their premiums net of tax relief.

19 ~~17~~. Although this measure is important it does need to be seen in perspective. In the Public Expenditure White Paper, we announced increased resources for the NHS of £2,500 million in 1989-90, and another £2,500 million in 1990-91: a total of £5 billion. And the cost of tax relief is nothing in 1989-90 and £40 million in 1990-91 - less than 2 per cent of the increase in one year alone of spending on the NHS. [That the Opposition have chosen to target their attacks on this measure only serves to underline the bankruptcy of their critique both of the Budget and of this Bill.]

18. It is a substantial Finance Bill running to 180 clauses and seventeen associated schedules.

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overseas."

Medical Insurance

15 13. This Bill contains one other measure ^{to help} ~~targeted~~ at the elderly. Clauses 51 to 54 will give tax relief for over 60% private medical insurance premiums. Unlike Members opposite, I do not want to endow this measure with a false importance. (7) It accounts for just one per cent of the tax reductions announced in my Right Honourable Friend's Budget and it addresses a very real problem. The problem is this.

16 14. Over recent years employers' health insurance schemes have expanded rapidly and I welcome this. [I do not have the
 λ Opposition's hostility and suspicion towards independence and choice]. It is largely due to such schemes that some 50 per cent more people are covered by medical insurance schemes today than in 1980. But membership of these schemes usually ends on retirement. People are then faced with a double increase in costs. Not only do their employers cease to pay their premiums, but the premiums themselves tend to rise, just when people's income falls.

17 15. We have had many representations over the years from people caught in this trap, who did not think it was fair that they should suffer ^{such a strong disincentive to continuing with private provision.} this double penalty. [I agree with them, and] the relief is designed to deal with this specific problem. It also encourages the overall provision of health care and investment in it, and thus eases the demands on the NHS. Indeed, the greater the take-up of this relief, the more that effect will be apparent. In particular, pressure

shares to his children, he was subject to yet another confiscatory tax in the form of capital transfer tax, where rates could be as high as 75 per cent. It is hardly surprising that direct share ownership went out of fashion in the 1970s; the only surprising thing is that it survived at all.

22 ~~21~~. This trend has changed - I hope irreversibly. Shares and unit trusts now account for a growing share of personal wealth. Moreover, share ownership has widened dramatically. There are now 9 million shareholders. This represents 20 per cent of the adult population, compared to only 7 per cent in 1979. We have achieved this partly through a programme of privatisation which has proved immensely successful and will continue in this Parliament and the next. But even ^{more} important for the longer term, has been the creation of a more sensible tax system. Now that no tax rate is higher than 40 per cent, investing in shares is again a worthwhile proposition.

23 ~~22~~. But we believe ^{it is right to} ~~we must~~ go further to promote private saving through equity investment. Direct share ownership must be allowed to compete with institutional saving. That is why my Right Honourable Friend introduced Personal Equity Plans in 1986 and further improved them in the Budget. The increase in the overall investment limit from £3,000 to £4,800 and in the unit trust and investment trust limit from £750 to £2,400 will give PEPs an additional impetus. Unit and investment trusts allow investors to spread risk and are

Share Ownership

20 19. A dominant feature of the Bill is the improvement of the taxation of savings. It contains a series of measures to increase and ~~deepen~~ the ownership of shares, particularly by employees and smaller investors. In the post-war period up to 1979, there was one clear trend in the composition of personal savings and that was the decline in direct share ownership. In 1957, shares and unit trusts accounted for around 20 per cent of personal sector wealth. By 1979, their proportion had fallen to 8 per cent. This decline had nothing to do with the pre-tax return on equities. Historically, they have tended to outperform other savings instruments. But it had a great deal to do with the post-tax return.

21 20. In contrast to saving through large tax relieved institutions, such as occupational pension schemes, direct equity investment subjected the saver to a whole range of punitive taxes. A top rate of tax of 83 per cent, combined with an investment income surcharge of 15 per cent, meant that direct investors in equities could receive as little as 2p in the pound of dividend income. On top of this, they were taxed not only on real capital gains, which I am afraid were few and far between in Labour's last period in office, but also on inflationary gains, which were ~~of course~~ in more plentiful supply. If the investor then wanted to hand on his

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substantial number of shares to be held in trust for longer term distribution to employees. These clauses ensure that payments by a company to an ESOP trust, set up to acquire and distribute shares to its employees, will qualify for corporation tax relief, provided certain qualifying conditions are met. Most important of these will be that shares must be distributed to employees within a maximum of seven years of their acquisition by the trust, and on an all-employee, similar terms, basis. ESOPS have a number of enthusiastic supporters on both sides of the House, and I am sure these clauses will be welcomed. (As the Right Honourable Member for Birmingham Sparkbrook said in his second reading speech three years ago, "I wish to make clear that I support genuine extensions of share ownership schemes which enable and encourage employees to acquire stakes in their companies. The schemes that I want would carry voting rights proper to share ownership, and would be available to all employees." I hope RHG will use his voting rights to support this measure because I agree with him.)

Pensions

26 25. The changes to the taxation of pension schemes set out in Clauses 72 to 74 complement the wider share ownership measures. They will increase pensions choice and encourage greater personal responsibility for pension provision. They will also deregulate an area of savings, which has become excessively circumscribed by Inland Revenue rules.

a good introduction to equity investment for the small saver. Along with the PEP deregulation measures announced by my X Right Honourable Friend, these changes have been widely welcomed. More plan managers are setting up plans, and a number of new products are being marketed. As the Chairman of the Unit Trust Association has said: "PEPs should now be the major success for investors they deserve to be."

24 23. Employee Share Schemes are another means of alleviating the tax bias against direct share ownership. I know such schemes have supporters in every part of the House. They have the particular advantage of giving employees a direct stake in the company they work for, and have been an important factor in breaking down the 'them' and 'us' mentality which pervaded British industrial relations in the 1960s and 1970s. The sooner that mentality is wholly gone the better. The House hardly needs reminding of the success of all-employee share schemes, 1,600 of which have been approved to date against 30 in 1979. Clauses 59 to 62 of the Bill are designed to give them added momentum by increasing the limits for relief and relaxing the material interest rules.

25 24. Employee share ownership plans provide an alternative means of encouraging employee ownership. Clauses 64 to 71, provide a statutory basis for tax relief for company contributions to these plans. For some companies they offer more flexibility than normal all-employee share schemes. ESOP trusts can borrow to acquire shares rather than relying entirely on funds provided by the company; this enables a

X commuted a maximum tax free lump sum of £90,000. Moreover, the limit will be indexed to prices. The transitional arrangements are equally ^{reasonable} generous. Only new schemes and new members of the existing schemes will be subject to the cap on benefits. Most ordinary scheme members will not be affected.

31 30. I do believe that a cap is necessary. Although we are committed to widening private pension provision, that should not be at an ever increasing cost to the majority of taxpayers who do not receive such large pensions themselves. There is a limit beyond which tax privileged saving is unfair and crowds out ordinary saving. Other tax reliefs are subject to monetary limits, and it is time the tax relief for pensions was put on a similar basis.

M.R.
P.E.S.

32 31. These changes have also provided an opportunity to redress the balance between occupational and personal pension schemes. Many members of personal pension schemes ^{- for example, the self-employed -} start contributing late in life. They have no access to the accelerated accrual available in final salary schemes, and often have lower pensions as a result. Although tax relieved contributions to personal pension schemes will be subject to an annual cash limit, we also propose that the limit on contributions be raised as a percentage of earnings for those aged 36 and over. Take the example of someone aged 56. Under the old rules he received relief on contribution up to 22.5 per cent of his earnings. Under the new rules, he will receive relief up to 35 per cent of his earnings. This change will give a further boost to personal pensions and

150
detailed,
I'd have
thought

27 26. The Government's record on improving private pension provision has been ^{15,9000}substantial. We have introduced personal pensions and freestanding additional voluntary contributions. We have made it easier for employees to contract out of the state scheme and we have improved the rights of scheme members, in particular those of early leavers.

28 27. These clauses build on this record. The rules for additional voluntary contributions, or AVCs, will be simplified, reducing the administrative burden on employers' schemes. And the anomaly whereby successful investment performance of the AVC led to a reduction in the employee's occupational pension will be ended. In future, excess AVC funds will be returned to the employee subject to a special tax charge.

29 28. Ending the link between Inland Revenue limits and the maximum pension payable by employers also makes the pensions regime more flexible. Employees and employers will now be free to negotiate whatever pension package they think is appropriate. Inland Revenue rules will no longer constrain the size of the pension, only the size of the tax relief.

30 29. The cap on tax privileged pension benefits completes the changes begun by my Right Honourable Friend in 1987. Based on earnings of £60,000, the cap has been pitched at a very generous level. It will still be possible to receive a privileged pension of £40,000 a year, and where benefits are

Keith

35 34. A substantial ~~chunk~~ of the Bill will complete the reform of the administrative framework for the main taxes, which began with the setting up of the Keith Committee in 1980. Clauses 138 to 165 simplify and update the system of interest and penalties for tax offences and revise the information powers of the Revenue. They will help to ensure that the operation of the tax system is effective and efficient, while at the same time remaining fair and just.

36 35. They are the product of an almost unprecedented degree of consultation for tax matters and have been widely welcomed in responses as achieving a proper balance between the rights and obligations of the taxpayer, and between the powers of the Revenue and safeguards for the citizen.

37 36. Clauses 17 to 21 implement last June's judgement of the European Court on VAT zero rating. As my Right Honourable Friend said in his Budget statement, we have made every effort to minimise the ~~unwelcome~~ burden of tax we have been obliged to impose on businesses and, more especially, charities. *as a result of this unwelcome decision* Again, we have consulted widely with those who will be affected; indeed, consultation began on a contingency basis even before the judgement was given. I am glad to say that we were able to meet all their main proposals for

the industry's

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Self-employed

will be of special value to [emotive examples please]. On Budget Day, my Right Honourable Friend reported that over 1 million people had taken out personal pensions by the end of 1988. That number has now risen to [1½ million.]

33 32. This Bill also contains some important measures for business. In his first Budget My Right Honourable Friend introduced a major reform and simplification of Corporation Tax, which enabled the main CT rate to be reduced to 35%; one of the lowest in the industrial world. This low rate, together with the removal of the bias against employment inherent in the old system, has made a significant contribution to the rapid economic ^{Employment growth} growth and high investment of recent years.

34 33. Of no less importance was the reduction in the small companies corporation tax from 42 per cent in 1978-79 to 25 per cent today. It is now right to extend the benefits of this rate to more companies. Clause 33 therefore raises the profit limit by 50%; ^{for} more than was required to keep pace with inflation. This measure will enable firms to make profits of up to £750,000 before ^{They reach an effective} paying an average rate of 35 per cent. It strengthens Britain's claim to have the most favourable tax regime for small companies in Europe and has been widely welcomed by business organisations. [Take in quote from ABCC etc.]

40 38. The best way to help charities is to encourage people to contribute to them. In recent years we have improved relief for charitable covenants, introduced relief for companies making one-off donations; and, most recently, introduced relief for payroll giving.

41 39. The response has been encouraging. Between 1978-79 and 1987-88, covenanted giving to charities has grown by 140 per cent in real terms. Payroll giving has also grown steadily since its introduction in 1987. There are now over 3,600 schemes in operation covering 100,000 participants. Clause 55 gives a further encouragement to this form of charitable giving by doubling the limit ^{for relief} (on contributions). I am delighted that this measure has met with considerable approval in the charity world. It also shows that tax reductions and growing net incomes have increased charitable giving and that we are by no means the selfish and materialistic society that some claim.

Unleaded Petrol

42 40. Finally, I would like to draw Honourable Members attention to Clause 1. This contains the measures designed to promote unleaded petrol, measures which have met with universal approval.

43 41. Despite the growing availability of unleaded petrol, its lower price and clear environmental benefits, at the time of the Budget it still accounted for around 5 per cent of petrol sales. This, frankly, rather disappointing market share prompted my Right Honourable Friend to try a new approach

minimising the judgement's impact. We have delayed implementation for as long as is possible and the transitional arrangements are generous.

Charities

38 37. One of our main concerns has been the effect of the judgement on charities. We have managed to ensure that, for their basic non-business activities, charities will continue to benefit from zero-rated construction services and fuel and power. Most new communal residences, such as homes for children, the elderly and the disabled, will continue to ~~attract the~~ ^{be} zero rate.^d In addition, charities will be relieved from VAT on fund raising events, on classified advertising and sterilising equipment for medical use. These measures have met with many charities' approval. As an RNLI spokesman put it: "we stage all sorts of fund-raising events where the admission charge carries VAT. It will mean a good few thousand saved for our coffers." I hope so.

39 38. There are a number of other provisions in the Bill which will benefit charities. Clause 25 exempts vehicles leased to the disabled from car tax. This will reduce the cost of each car by £400, and has been widely welcomed. I quote from the Deputy Chairman of Motability "without doubt this measure will help to enhance mobility for disabled people, especially those with very limited resources." As a former Minister of State (SS) this gives me particular pleasure.

this time around. He made it clear that he expected the full tax reduction of 3.6 pence a gallon on unleaded to be passed on to consumers. This has happened - the price differential at the pumps between four star and unleaded is now generally between 9 and 10 pence per gallon compared with 6p before the Budget.

Also, the increase in duty on two and three star has ~~raised prices to at least the level of four star leading to a~~ *made them less attractive to consumers and encourage*

~~reduction in the market for these two grades and creating more capacity for unleaded.~~

more garages to switch storage capacity and pumps to the more popular unleaded.

44 43. All the signs are that these changes are having the desired effect. The proportion of garages now selling unleaded is close to 40 per cent, and is expected to top 50 per cent by mid year. I hope and expect this to increase still further.

1 wd not use.

45 44. [It is unfortunate that on Budget Day morning the major oil companies, quoting US Dollar exchange rate and increase in price of crude, announced increases in pump prices. Since then developments in the markets have led to further considerable price increases but the differential between leaded and unleaded, which is what matters for consumption, has not been eroded.]

46 45. The onus is now firmly on individual motorists - be they 2, 3 or 4 star user - to see that, where they can, they switch soon to the cleaner fuel.

Peroration

Ch. Mr Howard is right

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FROM: Assistant Parliamentary Clerk
DATE: 2 May 1989
EXTN: 5008

MR C FARTHING - HE2
MISS M O'MARA - MG1
MISS M HAY - FP
MR G MICHIE - FP
PS/C+E
PS/IR

cc Principal Private Secretary
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Mr M C Scholar - PF
Mr R P Culpin - FP
Mr J C Odling-Smee - FIM1
Mr D L C Peretz - MG
Mr J F Gilhooly - FP
Mr N I Macpherson - FP
Mr R Perfect - HE2
Miss B Anderson - MG1
Miss C Weeks - C+E
Mrs J Hupman - IR
Mr J C Jenkins CB -
Parliamentary Counsel
Mr M L Saunders - Law
Officer's Dept
Mr A Jones - Legislative
Draftsman's Office, NI
Mr G Kowalski - Lord
Advocate's
Department, SO

*This is not what
Mr Howard meant
@ P...
has J. Arbuthnot
place of T. Smith.
Who is right?*

FINANCE BILL 1989 : STANDING COMMITTEE

The Committee of Selection nominated forty-two Members to serve on Standing Committee G and the Speaker appointed two Chairmen. Those comprising the Standing Committee are listed below with Labour Members to the left, Conservative Members to the right and one other underneath the Labour Members:-

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CHAIRMAN Mr Stan Crowther

Mr Patrick Cormack

Ms Diane Abbott

Mr Tim Boswell

Mr John Battle

Mr Julian Brazier

Mr Gordon Brown

Mr Peter Brooke

Mr Nicholas Brown

Mr Matthew Carrington

Mr John Cummings

Mr Anthony Coombs

Mr Nigel Griffiths

Mr David Curry

Mr Win Griffiths

Mr Quentin Davies

Dr Kim Howells

Mr Tony Favell

Mr Eric Illsley

Mr Nigel Forman

Mr Calum MacDonald

Mr Neil Hamilton

Dr John Marek

Mr Alan Howarth

Dr Lewis Moonie

Mr Andrew Hunter

Mr Chris Smith

Mr Norman Lamont

Mr Dennis Turner

Mr Peter Lilley

Mr Tony Worthington 15

Mr John Major

Mr Keith Mans

Mr John Maples

Mr Andrew Mitchell

Mr William Powell

Mr David Shaw

Mrs Gillian Shepherd

Other

Mr Tim Smith

Mr Alan Beith (SLD) 1

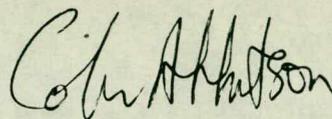
Mr Michael Stern

Mr Ian Taylor

Mr John Townend

16

Ms Ann Widdecombe 26



COLIN HUTSON

UNCLASSIFIED

UNCLASSIFIED

FROM: Ian Sears
 DATE: 3 May 1989
 EXTN: 5183

Phf

MR C FARTHING - HE2
 MISS M O'MARA - MG1
 MISS M HAY - FP
 MR G MICHIE - FP
 PS/C+E
 PS/IR

*Ch. Your note behind -
 Mr Hutchins is right.*

Hutchins

4/5

cc **Principal Private Secretary**
 PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Mr M C Scholar - PF
 Mr R P Culpin - FP
 Mr J C Odling-Smee - FIM1
 Mr D L C Peretz - MG
 Mr J F Gilhooly - FP
 Mr N I Macpherson - FP
 Mr R Perfect - HE2
 Miss B Anderson - MG1
 Miss C Weeks - C+E
 Mrs J Hupman - IR
 Mr J C Jenkins CB -
 Parliamentary Counsel
 Mr M L Saunders - Law
 Officer's Dept
 Mr A Jones - Legislative
 Draftsman's Office, NI
 Mr G Kowalski - Lord
 Advocate's
 Department, SO

FINANCE BILL 1989 : STANDING COMMITTEE

Further to Colin Hutson's minute of yesterday, would you please note that Mr Tim Smith has been discharged from Standing Committee G and substituted by Mr James Arbuthnot.

I. Sears

IAN SEARS
 Parliamentary Section

UNCLASSIFIED



FROM: FINANCIAL SECRETARY
DATE: 12 JUNE 1989

CHANCELLOR

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Mr Culpin
Mr Gilhooly
Miss Hay
Mr R K C Evans
Mrs Chaplin
Mr Tyrie
Mr Dyer - Parly Section

Mr Beighton - IR
Mr Roberts - IR
Mr Sullivan - IR
PS/IR

*Contract -
B... / W...
S... X... m...*

Mr Howarth MP

FINANCE BILL CLAUSES 114 AND 115: SUBCONTRACTOR TAX SCHEME

1. You may have seen Mr Beighton's note of 6 June and Mr Roberts' of 2 June.
2. Clauses 114 and 115 would give the Revenue enabling powers to introduce new rules for the subcontractors' tax deduction scheme. Clause 114 would have meant that, instead of vouchers having to be returned every time a payment was made to a subcontractor in the construction industry, payments would be aggregated until they reached £2,500 and only then would a voucher be sent in. Clause 115 would permit "super deductions" from later payments where subcontractors failed to supply vouchers.

3. These measures were among those in the consultative document published on Budget day. There has been a strong reaction against them. Even those who supported the idea of aggregation wanted it to be on the basis of aggregation over a set period of time, say a month, rather than up to a set total. Instead, the industry have come up with more radical proposals for abolishing vouchers altogether, including making all gross payments by credit transfer into designated bank accounts, while all cash payments would be made net.

X | 4. As the point of aggregation was largely to reduce the compliance burden on the industry, I propose to drop these two clauses at Standing Committee tomorrow. Ideas for different forms of aggregation or more radical options could be considered in the next stage of consultation.

5. None of this jeopardises the savings of 260 staff which are being secured by administrative changes and regulations under existing legislation.



PP **NORMAN LAMONT**
(approved by the FST
and signed in his
absence)

Michael Stern, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

CONFIDENTIAL

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

6th July 1989

78

HM TREASURY - M&U	
RECEIVED	07 JUL 1989
ACTION	HR
	CC MIBX Hope
	CHX
	29/7/89

Dear Nigel

Following our discussion at prayers, you asked me to write to you to set out the criticisms I have been hearing from professional colleagues (solicitors, accountants and barristers) on the history of this year's Finance Bill.

The first area of criticism relates to the number, scope and timing of amendments. It may well be true, as was said at prayers, that the number of amendments is insignificant in relation to the size of the Bill, but it is relevant in relation to expectations that have been built up in previous years and unflattering comparisons have been made with 1984 (when you will recollect we got into a certain amount of trouble over Controlled Foreign Corporation).

In addition, I have heard criticism of the fact that amendments were invariably published at the last possible minute, thus creating the impression that the Government was scrambling through the Bill a little more than a week ahead of the Committee and the fact that, with the exception of the withdrawal of clauses relating to Close Companies, few of the major amendments had been accompanied by Inland Revenue press releases thus leaving most professionals in the dark. Indeed, I find that, except among those professionals who are sufficiently sizeable to follow the Bill in detail, there is still a belief that the Government intends to abolish the right to make a Deed of Arrangement.

Cont/.....

The other area of criticism I have heard, while more general, is also more worrying simply because it could be taken up by the media, I have heard comments to the effect that the introduction of what was clearly ill-prepared legislation, followed in many cases by its withdrawal, is not, as we would argue, a sign of a listening, caring Government, but is instead a sign that the Government has lost control of the legislative process. This is clearly an argument that we cannot afford to have noised around and I would suggest that Ministerial colleagues take the opportunity, over the next few months, whenever addressing any professional association, to counter criticisms of this nature.

for us

mine

MICHAEL STERN

CC Rt Hon Norman Lamont MP
Rt Hon Peter Brooke, MP
P Lilley, MP
A Howarth, MP

Michael Stern, M.P.



HOUSE OF COMMONS
LONDON SW1A 0AA

CONFIDENTIAL

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

6th July 1989

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Cont/.....

*Comments, press, for FSI
2 IR changes & FSI 2
C&G
Hunt, what is the point?
in the bill, I go
The bill as published.
This is actually a side
copy - top not yet arrived!
2/17*

X | The other area of criticism I have heard, while more general, is also more worrying simply because it could be taken up by the media, I have heard comments to the effect that the introduction of what was clearly ill-prepared legislation, followed in many cases by its withdrawal, is not, as we would argue, a sign of a listening, caring Government, but is instead a sign that the Government has lost control of the legislative process. This is clearly an argument that we cannot afford to have noised around and I would suggest that Ministerial colleagues take the opportunity, over the next few months, whenever addressing any professional association, to counter criticisms of this nature.

Yin

Mund

MICHAEL STERN

CC Rt Hon Norman Lamont MP ✓
Rt Hon Peter Brooke, MP
P Lilley, MP
A Howarth, MP



FROM: J M G TAYLOR

DATE: 11 July 1989

PS/FINANCIAL SECRETARY

PS/ECONOMIC SECRETARY

cc PS/Paymaster General

*bp. 18/7***FINANCE BILL: LETTER FROM MR STERN**

... I attach, for convenience, a copy of Mr Stern's letter of 6 July.

2. The Chancellor would be most grateful for comments from the Financial Secretary in relation to changes to Revenue taxes, and the Economic Secretary, in relation to changes to Customs taxes.

3. He has commented, however, that whatever the position on amendments, he does not accept Mr Stern's charge that the Bill as published contained "clearly ill-prepared legislation, (which was) followed in many cases by its withdrawal". This needs to be rebutted in a robust fashion.

JMGT

J M G TAYLOR

67.29/17



FROM: S M A JAMES

DATE: 13 July 1989

PS/CHANCELLOR

Ch/
FS's comments still awaited.

cc: PS/Financial Secretary
PS/Paymaster General

df
14/7
Thur:

FINANCE BILL : LETTER FROM MR STERN

The Economic Secretary has seen your minute of 11 July.

2. He has commented that the criticism which may relate in part to Customs is late tabling of amendments. That was true in the case of amendments concerning VAT on the self supply of building land because of difficulties with the Commission over derogation. The decision to table the new proposals as amendments at Committee Stage and debate them immediately (thereby giving time for further consideration at report stage) was amply vindicated by events.

SMAJ

S M A JAMES
PRIVATE SECRETARY



Thurs. 24 July 1989
Keep up the stock up
John of the

CHANCELLOR

Ch. looked to WPA as prepared? (I always, immediately behind, a letter from Mr Hannon MP as an example of others we've received. Presumably your ans. to Mr Stern could serve as a stock reply).

**FROM: FINANCIAL SECRETARY
DATE: 24 JULY 1989**

**cc Economic Secretary
Paymaster General**

FINANCE BILL: LETTER FROM MICHAEL STERN

You asked for comments on Michael Stern's letter of 6 July.

2. With the longest Finance Bill ever, there was bound to be pressure on the drafting process and we always knew that the Bill would need to be amended during Committee. But I do not accept the criticisms that Michael Stern has reported.

3. I understand that there was an unusually large number of amendments on the Customs Side, but as Peter Lilley has noted (Miss James' minute of 13 July), there were particular difficulties with the European Commission this year which make that a special case.

4. I have looked at the number of amendments to the Inland Revenue tax provisions which accounted for bulk of the Finance Bill.

5. Although, in total, there were more Inland Revenue amendments in 1989 than 1988, there were far fewer than in 1986 or 1984 (the year which Michael Stern singles out for comparison). Moreover, there were fewer amendments at Report in 1989 than in 1988 and far fewer than in 1986 or 1984. The fact that there were fewer amendments at Report suggests that the Committee was generally satisfied that we had got the provisions right either in the Bill as published or as a result of amendments we introduced during the Committee stage. It certainly does not suggest that the 1989 Bill

behind

25/7

was badly managed or that the Government had lost control. Overall the number of pages in this year's Bill has increased less than average since the Bill was first published.

6. Nor were the direct tax amendments invariably published at the last minute. During the early part of Committee, the bulk of amendments - to improve the Bill as published or to complete drafting - were tabled in good time, the best part of two weeks before they were debated. It was not generally possible to give as much notice later on when amendments were increasingly made in response to representations. The amendments for Report were tabled one or at most two days after publication of the Bill as amended in Committee, ie five or six days before they were debated.

7. The third criticism reported by Michael Stern is that, with the exception of the withdrawal of clauses relating to close companies, few of the major amendments had been accompanied by Inland Revenue press releases, leaving most professionals in the dark.

8. Although I would encourage greater use of press releases than has been customary in the past to publicise major changes in the Bill, I think this criticism is overdone.

9. Whenever a significant change was made, Ministers or officials wrote to the representative bodies concerned and the changes were picked up in the press or at any rate the specialist press. On the particular example cited by Michael Stern - the withdrawal of the clause on IHT instruments of variation - I wanted Members of the Committee to be the first people to know what we had decided. But I also made arrangements for the Treasury Press Office to ensure that, following my announcement to the Committee, publicity was given to the decision to withdraw Clause 167. This was given extensive coverage in the serious newspapers the following weekend.

10. Like you, I do not accept the last charge in Michael Stern's letter - that the Finance Bill introduced clearly ill-prepared legislation, followed in many cases by its withdrawal.

11. The changes in the close company provisions (involving withdrawal of five clauses), following consultation, introduced a simpler approach to achieving our objective of abolishing close company apportionment, without significant cost to the Exchequer. We have no need to be apologetic about this - it shows the value of the normal Finance Bill consultative process.

12. The arguments on the IHT instruments of variation clause were always finely balanced and our decision to withdraw the clause demonstrates the Government's willingness to listen to representations (I could understand it better if we were being criticised for not doing so).

13. There is no point having a consultative document unless one is prepared to take consultation seriously. If the voucher aggregation proposals in the subcontractor consultative document had been endorsed by the building industry the two clauses in the Bill would have allowed their early implementation. When it became clear that the industry had alternative suggestions, it was entirely right not to add powers to the statute book that were unlikely to be used.

14. Ideally, of course, it is often best to consult before legislating - as was possible in relation to the Keith and life assurance measures - but this is not always possible and can slow down the reform process. Consulting on the basis of the Bill as published speeds matters up. But it does require a certain amount of flexibility - which is not the same as incompetence.

15. My impression is that there has been a certain amount of concern amongst the professions about the length of this year's Bill, which to an extent, is understandable and about one or two measures which their clients disliked. But all in all it has emerged pretty well from its passage through the Commons. The

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reason why it is long is that it contains many important and worthwhile measures demonstrating our continuing commitment to tax reform,

16. I attach a draft of a letter you might send to Michael Stern, subject to comments from copy recipients.



NORMAN LAMONT

Be type final.

DRAFT

20 July 1989

Michael Stern MP
House of Commons
LONDON
SW1A 0AA

Thank you for your letter of 6 July in which you set out criticisms you have heard from professional colleagues about this year's Finance Bill.

I think that these criticisms can easily be rebutted by reference to the facts.

It is true that there were many more amendments on the Customs and Excise side this year than normally. But these mainly concerned VAT on the self supply of building land, where there were difficulties with the European Commission over derogation. I am sure you will agree that this was a special case.

So far as the Inland Revenue taxes are concerned, while it is true that there were more amendments to the Finance Bill in 1989 than in 1988, there were fewer than in either 1986 or

1984 (the year you single out for comparison). Moreover, there were fewer amendments at Report in 1989 than in 1988 and far fewer than in 1986 or 1984. This suggests that the Finance Bill Committee and practitioners were generally satisfied that we had got the provisions right, either in the Bill as published or as a result of the amendments we introduced during the Committee stage. It certainly does not support the suggestion that the Bill was ill-prepared or that the Government had lost control. Overall the increase in the number of pages in the 1989 Bill since it was first published was less than average.

Nor were direct tax amendments invariably published at the last minute. Early on, the bulk of amendments were tabled the best part of two weeks before they were debated. Although we were not able to give as much notice later on, we were then largely tabling amendments made in response to representations. Amendments at Report were tabled one or two days after publication of the Bill as amended in Committee, five or six days before they were debated.

I agree that there may be a case for more press releases on some of the more important amendments to a finance Bill, though this would take up scarce resources at a very busy time. However, this year, whenever major changes were made to the Bill, we wrote to the representative bodies concerned and the changes were publicised in the specialist press as well as sometimes in the national press. The particular example you cite was the withdrawal of the clause dealing with instruments of variation for Inheritance Tax purposes.

It was right that the Members of the Finance Bill Committee should be the first people to hear of this. But it was subsequently publicised and did receive fairly full coverage in the serious national newspapers.

I do not accept that because some clauses were withdrawn for good reasons, this shows that the legislation was ill-prepared or badly drafted.

The changes in the close company provisions (involving the withdrawal of only five clauses), following consultation, introduced a simpler approach to achieving our objective of abolishing close company apportionment, without significant cost to the Exchequer. This seems to me to show the value of receiving and listening to representations during the Finance Bill proceedings. The final result was still a very valuable and significant reform.

Equally our decision to withdraw the IHT instruments of variation clause demonstrates our willingness to listen to representations. Normally the criticism is the reverse

Another area where we made changes was in relation to subcontractor certificates. Had our proposals in the Subcontractor consultative document been endorsed by the building industry, the two clauses in the Bill as published would have allowed their early implementation. When it became clear that the industry had alternative suggestions, it was entirely right not to add powers to the statute book

that were unlikely to be used. There is no point having a consultative document unless one is prepared to take consultation seriously.

I agree that consultation is in principle desirable. Where appropriate, we consult before legislating - as we did with both the Keith and life assurance provisions. But this is not always possible and of course can slow down considerably the process of tax reform (Consulting on the basis of the Bill as published speeds matters up. But it does require a certain amount of flexibility - which is not the same as incompetence).

I understand why there has been a certain amount of concern amongst the professions about the length of this year's Bill (and that it contained one or two measures which their clients did not like). But all in all it emerged well from its passage through the House. The number of substantial changes made was really remarkably small in what was the longest ever Finance Bill. And the reason why it is a long Bill is that it contains many important and worthwhile measures demonstrating our continuing commitment to tax reform.

NIGEL LAWSON