

PO CH/NY/0637
PART. B.

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PART. B.

SECRET

1987 BUDGET
STARTER.

25-11-87

DD's 25 yrs NAJCS 7/11/96.

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SECRET

NOTE OF A MEETING HELD IN THE FINANCIAL SECRETARY'S OFFICE ON
MONDAY 16 NOVEMBER 1987 AT 3.00

MINOR BUDGET STARTERS

Present:

	Financial Secretary	
Mr Cropper	}	Special advisers
Mr Tyrie	}	
Mr Isaac	}	
Mr Painter	}	
Mr Houghton	}	Inland Revenue
Mr Pitts	}	
Mr Shaw	}	
Mr Scholar	}	Treasury
Mrs Burnhams	}	
Mr Jenkins		Parl'y Counsel

Mr Isaac said that progress so far had been encouraging; the Revenue were meeting the targets that they had set themselves but there was a lot of work still to be done. On the basis of estimates which had been made so far, the IR measures would run to approximately 114 Finance Bill pages, but when allowance was made for those measures on which no estimate of length was at present possible, the length of Revenue legislation was likely to be about 150 pages. **Mr Scholar** said that when Customs and Excise measures were taken into account the total length of the Bill was likely to be about 165 pages. This was roughly the same length as last year's Bill at this stage. **Mr Painter** added that past experience suggested that the final length of the Finance Bill would probably be significantly longer than the initial estimate.

Mr Jenkins said that he had found it helpful to have had early instructions on a number of measures. **Mr Painter** said that there were two items still to be considered which were likely to be longer and more complicated than the measures on which instructions had already gone forward. These were S482: company residence and migration (Starter 400) and exchange gains and losses (Starter 210). Starter 400 looked to be a strong candidate for legislation in 1988 but exchange differences had never been seen as a real runner for early legislation and the Revenue would be recommending firmly against legislation on it in the next Finance Bill. **Mr Isaac** added that there could be a blockage on APAs if the Revenue did not hear from the DHSS soon. Decisions were needed from Ministers within the next fortnight or so if the Revenue were to get the next block of instructions to Counsel on time.

The meeting considered the individual starters listed on the agenda. The following points were made in discussion.

Starter 200 (close companies: apportionment of interest) - Mr Painter said that this marginal technicality had been put forward in detailed representations from the Institute of Taxation following the Sir Emmanuel Kaye case. The **Financial Secretary** did not consider this to be a candidate for inclusion in the Bill.

Starter 203 (Business Expansion Scheme) - Mr Painter said that the normal stock-taking note on the BES would come forward by the end of the month. It would consider again the idea of an investment ceiling, as the Chancellor had requested.

Starter 204 (capital allowances: pre-consolidation amendments) - Mr Painter explained that the Law Commission would not be in a position to bring forward the capital allowances consolidation legislation until 1989. There was thus no need to include the pre-consolidation amendments in the 1988 Finance Bill and the starter could therefore be dropped. There were however one or two matters which were to have been covered by this starter which would be needed in 1988. They would be covered in a separate note.

Starter 206 (capital allowances: fire safety etc) - Mr Painter explained that this starter was a consequential of Home Office safety regulations.

Starter 209 (capital allowances: assured tenancies) - Mr Painter explained that there was a risk of balancing charges if the assured tenancies scheme came to an end. If that were to happen legislation would be needed in the 1988 Bill.

Starter 210 (exchange gains and losses) - discussed above

Starter 211 (abolition of relief for business entertaining of overseas customers) - The Financial Secretary said that this starter should remain very firmly on the list.

Starter 212 (small advertising gifts) - Mr Painter explained that this subject had been raised by Treasury and Ministers in the course of the discussions on third party entertainment. The **Financial Secretary** did not regard this as a strong candidate for legislation and would be recommending to the Chancellor that it be dropped.

Starter 213 (in-year assessment on Schedule D income) - The Financial Secretary was considering this.

Starters 214 - 216 (Lloyds) - Mr Painter said that Lloyds had delayed discussions because of their preoccupation with the US issue, but they were now under way and submissions would be coming forward shortly. Increasing the SRF (Starter 214) looked like a clear non-starter in the context of the Budget; the starters on administration had been left over from last year. **Mr Scholar** asked whether these starters were postponable. **Mr Painter** said that they were but the problems and inefficiencies of the present arrangements continued to grow; it was possible that Lloyds would be co-operative; and he therefore hoped Ministers would keep them on the list for the time being.

Starter 217 (pension scheme repayments) - Mr Painter said that this starter had been put forward following an approach from the ABI who felt that their members were at a disadvantage compared with the pension funds. The Revenue were waiting for the ABIs detailed case.

On a separate pensions matter, the **Financial Secretary** said that he had asked the Revenue to look at the accelerated accruals measures enacted last year. He was anxious to have a submission shortly. Mr Isaac said that he would look into the matter.

Starter 300 (stamp duty threshold) - The **Financial Secretary** said that he would like a separate meeting on this starter.

Starter 301 (stamp duty on shares) - Mr Scholar said that he was surprised to see this on the list as he had not thought it a candidate for action in 1988. Mr Isaac agreed to check the position.

Starter 400 (company residence and migration) - Mr Houghton said that he hoped to send forward a submission in the next few days.

It was noted that the Financial Secretary would be considering the list of discarded starters which the Revenue had earlier sent to FP.

D SHAW

- c. Those present
PS/Chancellor
PS/Chief Secretary
PS/PMG
PS/EST
Sir P Middleton
Mr Beighton
Mr McGivern
Mr Marshall
Mr McManus



Inland Revenue

Policy Division
Somerset House

From: I R SPENCE
Date: 19 November 1987

1. MR MCGIVERN
2. FINANCIAL SECRETARY

I agree. It is clearly important to clarify the administrative/manpower implications if this starter is to go ahead.

LLOYDS: RIC - LEAVERS: STARTER 214

*PS/IR
19/11*

SUMMARY

1. Lloyds have come up with a proposal which we would recommend on merits, provided it could be implemented at a tolerable administrative cost (on which we would need further discussion with Lloyds). We would expect the legislation to be brief, and uncontroversial. If the administrative problems can be sorted out, there seems a good case for 1988 legislation on it. But it is a less important issue than the other Lloyd's starters - SRF and administration/collection arrangements - and decisions on those topics may govern your decision on whether to legislate on this leavers issue in the 1988 Finance Bill. We suggest that we discuss the administrative problems with Lloyds, but do so on the basis that Ministers are not committed to legislation.

BACKGROUND

2. Lloyds are looking for a change in the RIC legislation. They want special rules imported into Section 70 FA (No.2) 87

cc Chancellor
Chief Secretary
Economic Secretary
Sir Peter Middleton
Mr Scholar
Mrs Lomax
Mr Culpin
Miss Sinclair
Mr Cropper
Mr C J Riley
Mr Jenkins (OPC)

Mr Painter
Mr Pollard
Mr Beighton
Mr McGivern
Mr Spence
Mr Skinner
Mr Newstead
Mr Bolton
Mr Templeman
Mr Walker
PS/IR

to deal with the position of people who leave Lloyd's (or join it) or change their shares in syndicates.

3. Ministers considered the possibility of a special relief in this area. In practice it would produce complexity and avoidance possibilities. (It should be said that the proposal being considered then went much wider than the solution Lloyds are now putting forward).

4. Lloyds themselves did not raise the issue until the final stage of the negotiations on the legislation. They then withdrew the proposal, explicitly and without reservation. (Peter Miller said the proposal was excessively complex and that Lloyds members would not understand it, and would not want it if they did understand it). However, Sir William Clarke subsequently raised it in the House and Peter Miller then wrote to you asking for it to be reconsidered. You agreed that the issue should be discussed again. But your response (24 August) emphasised that this was without any commitment to legislation. Your registered disappointment with Lloyds had developed reservations on this point, after saying they did not wish to pursue it, and ended by saying:-

"I can see advantage in waiting to see how the legislation works out in practice before contemplating legislative changes."

5. You will remember that you took a similar line when you discussed this issue with Mr Keith Carmichael, and also made the point that solutions to the (alleged) problem might be too administratively complex to be practical. (See note of your meeting attached - top copy only).

POINT AT ISSUE

6. The base-point. The RIC legislation follows the commercial treatment of RIC in syndicate accounts. The

commercial treatment is that the RIC payment is a deduction from the profits of the members of the year 1 syndicate, and an addition to the profits of the recipients - the members of year 2 syndicate. If the RIC (say £100 per member) is fully tax deductible the payer will get a deduction of £100 from his year 1 tax profits and the recipient will get a corresponding increase in his taxable receipt. The logic follows through if some of the RIC is disallowed for tax under Section 70. If £10 is disallowed then:

- a. the payer (year 1 syndicate) has an extra £10 of taxable profit (ie a deduction of £90, instead of £100); and
- b. the recipient (year 2 syndicate) has a corresponding £10 reduction in his taxable receipt for year 2 (£90 instead of £100).

7. There is no problem - Lloyds agree - when the payer and recipient is the same person - ie when a person stays in the same syndicate, and his share of the syndicate business is the same in year 1 and year 2.

8. The leavers problem. Lloyd's say that the result is unfair when somebody leaves Lloyd's at the end of year 1 and some RIC is disallowed for tax purposes. The leaver has an extra taxable profit of £10 for year 1, on which he has to pay tax. But the benefit of the reduction in taxable receipts for year 2 does not go to him; it goes to his successor. So, Lloyds complain, the leaver pays too much tax and the joiner pays too little.

9. The problem for people who leave syndicates, or reduce their share in syndicates. Lloyds say that here, too, the same unfairness exists under the present rules. A person who leaves a syndicate (and transfers to another one) will have the same problem as the person who leaves Lloyds entirely. He will pay

tax on an extra £10 in year 1. But the "credit" for that £10 will go to the benefit of his successor in that syndicate - he, will not himself be able to carry the "credit" over to his new, year 2, syndicate.

10. Lloyd's say that the same problem exists where someone stays in a syndicate, but reduces his share in it. Assume Mr A has a 1% share in the year 1 syndicate (producing £100 RIC payment) but only a 1/2% share in the year 2 syndicate. If £10 of his RIC payment is disallowed for tax, he will have to pay tax on that £10. But his taxable receipt for year 2 will only be reduced by £5. The benefit of the other £5 reduction in the taxable receipt will go to whoever takes on the 1/2% share he has given up - either somebody who joins the syndicate afresh, or an existing member who has increased his share.

LLOYD'S PROPOSAL

11. People who leave Lloyds entirely. Lloyd's solution to the problem is that these leavers should be exempted from the effects of the RIC legislation. Correspondingly, someone who joined Lloyds afresh would not "inherit" any reduction in his taxable receipt for year 2.

12. So if £100,000 of a syndicate RIC was disallowed under Section 70, and 10% of the syndicate members retired (or died), they would be immunised from the RIC tax disallowance. The tax disallowance would only be £900,000 - falling only on those who stayed in the syndicate. There would be a corresponding increase of £100,000 in the taxable receipts for year 2 - distributed among those who had joined Lloyds.

13. People who stay in Lloyds, but leave syndicates or reduce their shares. Here there would be no change in the tax treatment of the RIC payment. The person who switched from syndicate X to syndicate Y (paragraph 9 above) would still pay tax on the disallowed £10.

The person who reduced his share in the syndicate (paragraph 10 above) would also still pay tax on £10.

14. The change in treatment that Lloyd's propose would only apply to the taxable receipts for year 2. Lloyd's want to break free of the present system, under which the year 2 "credit" for the year 1 tax disallowances is re-distributed among the members of the year 2 syndicate according to their shares. Instead, anybody who had suffered a tax disallowance in year 1 of say - £10 would carry that forward to year 2 as a personal credit - ie a reduction in his taxable receipt from all his Lloyd's syndicates in year 2. So the person who transferred from syndicate X to syndicate Y (paragraph 9) would have the benefit of his credit against his year 2 profits from syndicate Y (instead of yielding up the benefit to his successor in syndicate X). Similarly the person who reduced his share in the syndicate by 50% (paragraph 10) would still have the benefit of the full £10 credit, instead of yielding half of it to his successor.

COMMENTS

15. The only problem we see with Lloyd's proposal is that it might be administratively complex. This is because it would break away from the current commercial treatment of RIC - followed for tax - by which RIC is calculated on a syndicate basis. A new bit of tax machinery would have to be invented to deal with their idea that anybody who had suffered a tax disallowance under the RIC legislation for year 1 should carry it forward as a personal credit against his total Lloyd's tax liability for year 2. It is possible that the complexity/staff cost of setting up this new machinery might be out of scale with the underlying problem. If Ministers want to consider the proposal further, then we will need to discuss these mechanical problems with Lloyds.

16. In all other respects we think Lloyd's proposal has a clear cut advantage over the present system. It would, we think, produce a more equitable distribution of the tax burden than the present system - and we think it undeniable that the anomalies Lloyd's have identified are rather difficult to defend. The scope of their proposal is more limited than previous proposals, and does not produce the objectionable features which caused those proposals to be ruled out. The key difference is that Lloyd's present proposal only gives immunity from the RIC legislation to those who leave Lloyds entirely (on retirement or death). The previous proposals - which Ministers discarded - would have extended this immunity to people who left syndicates (and switched to other ones) and to people who reduced their shares. This could have cut the RIC charge by up to 50%, and might also have produced avoidance opportunities (eg people switching from syndicate to syndicate to avoid the RIC charge). By contrast the Lloyd's proposals would:

- a. have a negligible Exchequer cost - since only 2% of Lloyd's members retire or die each year;
- b. produce a more rational distribution of the year 2 "credit" for tax disallowed in year 1 among those who stay in the Lloyd's market - without any Exchequer cost;

and

- c. produce simple legislation (probably no more than a quarter of a page) which would, we think, be readily defensible in the House.

TIMING/PRIORITIES

17. If the administrative problems can be sorted out we consider that, taking this issue in isolation, there is a good

case for legislating in 1988, so that the new rules could take effect for the first year in which the RIC legislation applies - ie the Lloyd's 1985 account. (Mechanical problems of inventing new tax machinery may make it difficult to achieve this - this is a point we will have to cover in further discussions with Lloyds).

18. Read-across to other Lloyd's starters. If Ministers decided to legislate in 1988 on one or both of the other Lloyd's starters (SRF; administration/collection) this would prima facie strengthen the case for 1988 legislation on the leavers issue. But if Ministers decided to defer legislation on the other Lloyd's starter, it may be preferable to defer legislation on this topic as well, rather than face two separate doses of Lloyd's legislation. A decision not to legislate could be justified on the argument that it would be sensible to wait until the RIC legislation has applied in practice, to see whether the practical problem is substantial enough to merit legislative action. You set the scene for this in your 24 August letter to Mr Peter Miller (paragraph 4 above), and since Lloyd's chose to miss the boat on the point in July 1987 they would not have much justification for complaining.

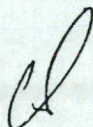
CONCLUSION

19. We consider there is enough merit in Lloyd's proposal for it to be kept open as a live starter for the 1988 Bill. If you agree, we suggest we discuss further with Lloyds to see whether the solution could be implemented at tolerable administrative cost. We would do this on the basis that Ministers are not committed to 1988 legislation even if the administrative problems can be sorted out. We will then report back, so that you can take a final view on the merits of this particular proposal, and decide to legislate (or not) in the light of the decisions on the other Lloyd's starters.

* However much we emphasise this - and we shall make it crystal clear - further discussions will inevitably raise Lloyd's hopes for legislation.

D. S. Green

20. Meanwhile, we suggest we should instruct Parliamentary Counsel on a contingency basis.

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

I R SPENCE

D

FROM: MRS T C BURNHAMS
DATE: 20 NOVEMBER 1987

- 1. MISS SINCLAIR *AS 20/11*
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Mr Cassell
- Mr Scholar
- Mr Culpin
- Miss Evans
- Mr Cropper
- Mr Call
- Mr Tyrie
- PS/IR
- Mr Isaac - IR
- Mr Painter - IR
- Mr Beighton - IR
- Mr Shaw - IR
- PS/C&E
- Mr R Allen - C&E
- Mr Jenkins - Parliamentar
- Counsel

MINOR BUDGET STARTERS

You are to hold a meeting next Tuesday to review the minor Budget starters. I attach a list of these which might form an agenda. The purpose of the meeting is to take stock of progress and to consider the overall size and shape of the emerging 1988 Finance Bill. As discussed below Ministers have already reviewed most of these starters. We imagine therefore that little substantive discussion will be needed.

2. Drafting on those starters approved by Ministers has begun. We understand that Parliamentary Counsel has a reasonable flow of work but is shortly to receive extra support and could take on more. The aim is to send him as many instructions as possible before Christmas, to reduce the bottleneck as the Budget approaches..

3. The attached list excludes Task Force and a number of associated starters, and the main budgetary items. Also omitted are the Department of Transport starters. We are pressing DTp to let us have these as soon as possible. The list includes the Lloyd's starters

but we suggest these should not be reviewed on Tuesday since Ministers will wish to consider these separately as a package.

Progress

4. Submissions have been made in respect of all but 14 of the 63 minor starters on the list; reviews and consultation procedures account for some of those which are outstanding. Of the remaining 49 - decisions to include (or provisionally include) have been taken in respect of 26 while 10 are recommended to be dropped: we would be grateful to know whether you agree. The remaining 13 starters are with Ministers for decision.

Size of the Bill

5. If all the starters currently in play were to be adopted the Bill would be of the order of 180 pages. About half of this represents minor starters. You will recall that the 1986 Bill, which was regarded as being of the maximum manageable size, contained a total of 265 - old size - pages, 65 of which were added between publication and passage. These 265 pages would equate to approximately 200 pages of the new size introduced in 1987. The two Finance Acts in 1987 together comprised 211 pages.

6. Details of all the starters, including those on the attached list, are contained in the updated summary sheets (attached below).



MRS T C BURNHAMS



Inland Revenue

Policy Division
Somerset House

FROM: MRS C B HUBBARD

DATE: 20 NOVEMBER 1987

1. MR JOHNS

MAY 20/11

2. ECONOMIC SECRETARY

BUDGET STARTER NO. 351: PRT: VARIATIONS IN ASSESSMENTS OR DETERMINATIONS

1. This note describes some defects which have been identified in the machinery for assessments and determinations of losses, appeals thereon and due dates for payment in Schedule 2, Oil Taxation Act 1975 (OTA 75), and seeks your views on whether legislation to remedy them should be included in the 1988 Finance Bill.

2. In particular, problems have come to light in the wording of Paragraph 12, Schedule 2, which empowers the Board to amend PRT assessments or determinations of losses (or make determinations instead of assessments and vice versa) whenever it appears that the figures for profits or losses should have been larger or smaller. This in turn gives rise to doubts about the correct interpretation of the wording adopted in Paragraph 10 on the making of assessments and loss determinations, and in Paragraph 14 on appeals. The legal basis of some of these various provisions may be flawed (see paragraphs 6-12 below) and actions

cc Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Mr Scholar
Mr Culpin
Mr C J Riley
Mr Williams
Miss Sinclair
Ms Leahy
Mr Wilson

Mr Jenkins-
Parliamentary Counsel

Mr Painter
Mr Pollard
Mr Beighton
Mr Johns
Mr Elliss - OTO
Mr Cleave
Mr Calder
Mr Beauchamp - OTO
Mrs Hubbard
Miss Hill
Mr J Evans
Dr Parker
PS/IR

under them are, therefore, potentially open to challenge. The basis has never yet been challenged, but if it were ever necessary to take collection proceedings, we could find that our ability to do so is seriously constrained. The Revenue makes a large number of amendments to assessments, bringing in substantial amounts of extra PRT. (In the last 12 months 52 amendments to assessments were made under Paragraph 12 of Schedule 2, bringing in an extra £52 million.)

3. We would not normally put to you as a Budget Starter legislation to remedy a defect which no-one has challenged, but we thought you should be aware of the position since, if it were challenged, very substantial amounts of tax could be at stake unless you were at that stage prepared to legislate in a way which might be criticised as retrospective. Our own view is that even at that stage there would be good defences against such criticism.

Keith Considerations

4. Paragraph 12 of Schedule 2 OTA 1975 was the subject of a recommendation in Volume 3 of the Keith Committee's Report on the Enforcement Powers of the Revenue Departments although it did not identify the flaws which are the subject of this note. Hitherto it has been thought better to leave remedying the flaws until implementation of the Keith PRT recommendations, rather than having two bites at the same cherry. Since, however, the timetable for implementation of the Keith Volumes 1 and 2 recommendations has been extended, thereby deferring the legislation on the PRT recommendations, the risks outlined above point to earlier action. One of the Keith PRT proposals would introduce a six year time limit for the operation of the right to amend assessments and loss determinations where it is currently unlimited, and it might be controversial to legislate now to confirm the Revenue's powers unless account is taken of that recommendation. The Revenue accept in principle that the six year time limit should apply and believe that it may in fact already apply to amendments of assessments, and we would

therefore recommend introducing it at the same time as the defects in Paragraph 12 of Schedule 2 are dealt with, which would help to balance the package.

5. There are, however, also a number of industry representations on the administrative machinery which were made along with their response to the Keith recommendations, and which were likewise held over to be dealt with at one time. One of these, the amount of tax held over on appeal, was pressed again strongly by the industry in the context of falling oil prices, and Ministers did consider, and reject, the proposal of dealing with it in advance of the rest of the Keith and Keith-related items. It should, however, be noted that if one of the points mentioned below touched briefly on that very issue, there would be pressure to go beyond the very limited technical change. At the very least one could expect an industry-sponsored amendment to be tabled at Committee Stage.

The problems

6. The main difficulty lies in the lack of precision in the wording of the machinery for the amendment of PRT assessments which was not modelled directly on any other taxes. In other taxes the Revenue cannot amend assessments upwards (except on settlement of appeals) but has to make further assessments. In the PRT scheme this approach would have distorted the pattern of expenditure relief, since for PRT purposes expenditure is taken into account in the next assessment made after the expenditure is formally allowed. Among other effects it would have been necessary to expand the loss relief rules where expenditure taken into account in a 'further assessment' produced a loss for a period for which a profit had already been assessed.

7. While there are some references to "further assessments" in the Oil Taxation Acts, the general concept is that adjustments up and down should be made by amendments to existing assessments. The original scheme did not bring in upwards amendments (and until the oil allowance and safeguard were introduced part way

through the passage of the Bill these were fairly unlikely). As a result the legislation does not provide an explicit due date for payment of extra tax due as a result of an amended assessment. Nor does it provide clearly for appeal rights in relation to such amendments. Certain defects were picked up in the 1976 Finance Act but these lacunae were still overlooked.

8. To put matters right, for the due date of payment, we would need to provide that the additional tax should be payable 30 days after the issue of notice of the amended assessment.

9. The basic right of appeal on a notice of amendment of an assessment was added in Paragraph 14(1) of Schedule 2 OTA 1975 by S. 130 FA 1976, but there ought also to be a provision deeming an amendment of an assessment to be under appeal if at the time it was made the original assessment of which it is an amendment was under appeal, but restricting the right of appeal, where the original assessment was final, to the respects in which that original assessment was changed.

10. The general six year time limit for the making of assessments (Section 34 Taxes Management Act 1970) is applied to PRT by Paragraph 1(1) of Schedule 2 OTA 1975. As amendments of assessments are not envisaged by Section 34 TMA, it is not clear whether the six year time limit applies to them. Moreover, there is no such thing outside PRT as a determination of losses, and they are therefore not subject to any time limit. The Keith Committee recommended (Recommendation 121, Volume 3) that the six year time limit should apply to Paragraph 12(2) determinations and amendments to assessments and determinations.

11. As mentioned in paragraph 4 above, we would recommend introducing this change at the same time as the changes outlined in paragraphs 8 and 9 are made. It would be necessary, however, to ensure that the new time limit did not restrict the making of assessments, determinations or amendments thereof which were required in consequence of other assessments etc made within the time limit, or in consequence of the settling of appeals or

required for the carry back of losses, or the adjustment of licence debit etc.

12. There are a number of other minor defects in the wording of Paragraphs 10-12 of Schedule 2 (Assessments to tax and determinations of loss etc), and Paragraph 14 Schedule 2 (Appeals) which it would be desirable to make whenever Finance Bill space permits. These are less important than the items in paragraphs 6-11 above, but would improve the integrity of the system. These include the adding of a reference in Paragraph 10(4) to the reductions in assessments due to oil allowance and safeguard, the extension of the jurisdiction of the Special Commissioners in Paragraph 14(10) to questions of set-off of allowable losses, oil allowance and safeguard, and the introduction of a provision for the recalculation of the amount of tax which can be withheld if an amendment of an assessment is made when the assessment it amends is under appeal. That is not an exhaustive list, but gives a flavour of the type of amendments required.

Length of Legislation

13. We have not yet consulted Parliamentary Counsel about these changes, but would imagine that they could all be introduced by a short clause and listed in a Schedule. In order to make all the desirable changes at one go, we estimate that the Schedule would probably have to be about two pages. If we confined ourselves to the most urgent of the changes (paragraphs 8-10 above), the Schedule might only be one page.

Timing of legislation

14. The question is, how urgent is it to make any of the changes in next year's Finance Bill? The Oil Taxation Office has been amending assessments for some 5 years and in no case has anyone challenged the position nor has it been necessary to contemplate collection proceedings. Nor do we have any reason to suspect that a challenge or such proceedings are an imminent

possibility. Nevertheless, the defect in the present position which matters most is that, if we do not have a due date for collecting the tax charged for the first time in an amended assessment, we could not conscientiously assure the Court in collection proceedings that there was no arguable defence to our claim even though the assessment as amended was final. This would mean that we could not proceed to summary judgment (thus adding to the cost and time spent on legal work) and that it could not be assumed that we would get judgment at the end of the day even if there was in fact no defence to the proceedings. That being so, we would either have to face a considerable loss of tax (which could be as high as £10s of millions on a single amendment to an assessment) or introduce legislation after we had failed in our attempt to collect the tax due.

15. Legislation in such an event might be criticised as retrospective if it was applied to the case in which we failed to collect the tax due. The Government would be providing a means of collecting tax that a Court had found was not collectible. On the other hand, the tax would be clearly due, and interest would be clearly running from 2 months after the end of the chargeable period under existing legislation. The Government would not be legislating to penalise the companies for something done in the past but crystallising - at a date after the legislation - an obligation to pay which already existed but without specific time. We would have thought this was defensible. But if you think it would be difficult to defend on retrospectivity grounds, there is a case for legislating now to avoid all problems.

16. Defects in Paragraph 12 of Schedule 2 were first brought to Ministers' attention in December 1985 as part of BS 156: Keith-Related Administrative Changes. It had originally been envisaged that legislation of the Keith PRT recommendations would be included in the 1986 Finance Bill, and the opportunity would be taken to make a number of other administrative changes identified by the Revenue as desirable, or pressed by the industry in their representations. When the timetable for Keith

implementation slipped, Ministers were asked to consider whether they wished some of the other administrative measures to go ahead nonetheless. In the event, the then Financial Secretary decided that they should all be left for a later Finance Bill.

17. The implementation of Keith Volumes 1 and 2 was started in the 1987 Finance Act, but it was decided that there would be too much to deal with it all in one Act, and it was to be phased over three years. In fact, the second stage of implementation in the 1988 Bill is likely to be less than originally envisaged, which tends to push the PRT Keith implementation even further into the distance.

18. The objections to legislation this year are shortages of Finance Bill space (and Parliamentary Counsel's time) and objections which would be raised by the industry. They have made a number of representations, some of which might have been acceptable but they cannot be met simply because of pressure on Finance Bill space. They would find it difficult to understand why we managed to find space for such administrative points, which are not yet live issues, when there might be very little else for them in the Budget. On the other hand, if you covered the appeal point and the six year time limit point you would be offering a balanced package and meeting an industry representation as well as stopping a potential tax leakage.

Conclusion

19. There are some defects in the assessment and appeals machinery which should sometime be addressed in order to protect revenue. There are also a number of slightly less important drafting changes which are desirable in order to uphold the integrity of the assessing system. And there are some representations of the industry on related administrative matters which Ministers have promised to consider in the Keith context. It would be preferable for them all to be done at the same time in order not to have two bites at the same cherry.

20. However, if you defer action, there is a risk that the key defect may become apparent and very significant amounts of tax on amendments to assessments would become uncollectible. We think you could act to prevent loss in those circumstances without unacceptable retrospection (see paragraph 15 above). But if you feel that such action after the event would be unacceptable we would recommend including in next year's Finance Bill a package consisting of

- a. provision that tax is payable 30 days after the issue of an amended assessment (with credit for any tax already paid).
- b. provision that if an assessment or determination under appeal is amended, the amended assessment or determination is treated as under appeal, and that if it is not under appeal, the amended assessment or determination can be appealed against only to the extent of any changes.
- c. provision that the six year time limit on making assessments should extend to determinations and amendments to assessments and determinations.

C Hubbard

MRS C B HUBBARD

FROM: MRS T C BURNHAMS
DATE: 20 NOVEMBER 1987

BURNHAMS
TO
CH. EX
20-11-87

- 1. MISS SINCLAIR
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Mr Cassell
- Mr Scholar
- Mr Culpin
- Miss Evans
- Mr Cropper
- Mr Call
- Mr Tyrie
- PS/IR
- Mr Isaac - IR
- Mr Painter - IR
- Mr Beighton - IR
- Mr Shaw - IR
- PS/C&E
- Mr R Allen - C&E
- Mr Jenkins - Parliamentary Counsel

Check. Look us over & send into an planner.

Ch
We have a meeting scheduled to discuss these minor starters. It is probably worth holding this to keep up momentum and to take stock. But if you are content with junior Ministers' decisions so far, you may prefer to stand the meeting down. If so, a draft minute for me to send is attached at C.

MINOR BUDGET STARTERS

20/11

Flg A

You are to hold a meeting next Tuesday to review the minor Budget starters. I attach a list of these which might form an agenda. The purpose of the meeting is to take stock of progress and to consider the overall size and shape of the emerging 1988 Finance Bill. As discussed below Ministers have already reviewed most of these starters. We imagine therefore that little substantive discussion will be needed.

2. Drafting on those starters approved by Ministers has begun. We understand that Parliamentary Counsel has a reasonable flow of work but is shortly to receive extra support and could take on more. The aim is to send him as many instructions as possible before Christmas, to reduce the bottleneck as the Budget approaches..

3. The attached list excludes Task Force and a number of associated starters, and the main budgetary items. Also omitted are the Department of Transport starters. We are pressing DTP to let us have these as soon as possible. The list includes the Lloyd's starters

but we suggest these should not be reviewed on Tuesday since Ministers will wish to consider these separately as a package.

Progress

4. Submissions have been made in respect of all but 14 of the 63 minor starters on the list; reviews and consultation procedures account for some of those which are outstanding. Of the remaining 49 - decisions to include (or provisionally include) have been taken in respect of 26 while 10 are recommended to be dropped: we would be grateful to know whether you agree. The remaining 13 starters are with Ministers for decision.

Size of the Bill

5. If all the starters currently in play were to be adopted the Bill would be of the order of 180 pages. About half of this represents minor starters. You will recall that the 1986 Bill, which was regarded as being of the maximum manageable size, contained a total of 265 - old size - pages, 65 of which were added between publication and passage. These 265 pages would equate to approximately 200 pages of the new size introduced in 1987. The two Finance Acts in 1987 together comprised 211 pages.

6. Details of all the starters, including those on the attached list, are contained in the updated summary sheets (attached below).

Flag B



MRS T C BURNHAMS

FROM: MRS T C BURNHAMS
DATE: 20 NOVEMBER 1987

- 1. MISS SINCLAIR
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
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- Mr Isaac - IR
- Mr Painter - IR
- Mr Beighton - IR
- Mr Shaw - IR
- PS/C&E
- Mr R Allen - C&E
- Mr Jenkins - Parliamentary Counsel

CS 20/11

Think. Let us have a short mtg as planned.

Ch
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MINOR BUDGET STARTERS

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Progress

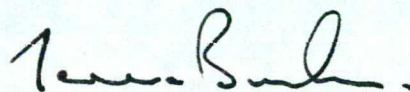
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Flag B



MRS T C BURNHAMS

MINOR STARTERS

<u>NO.</u>	<u>TITLE</u>	<u>STATUS</u>	<u>DATE OF LATEST SUBMISSION</u>	<u>COMMENT</u>
2	Duty differential for unleaded petrol	NSM		Consultation ends 30/11/87
3	Def. of process of rendering wine or made-wine "sparkling"	I	4/11	EST agreed to include 20/11/87
4	Restructuring of wine and made-wine duties	I	4/11	EST agreed to include 20/11/87
5	Pool betting duty structure	NSM		Submission expected at end of month
6	Phased abolition of matches and mechanical lighters duties	NSM		NMC report awaited
7	Abolition of minimum duty charge for beer	I	4/11	EST agreed to include 20/11/87
8	Power to assess beer, wine and cider duties	D	4/11	EST agreed to drop 20/11/87
9	Remission of duty on spirits for medical or scientific use	I	4/11	EST agreed to include 20/11/87
10	Oil duties relief	UCM	20/11	
11	Relief from duty of goods testing	I	4/11	EST agreed to include 20/11/87
30	Keith	I		

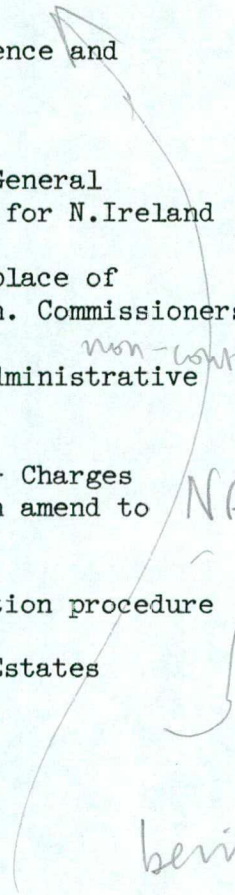
I - definitely included; I* - provisionally included; D - definitely dropped; D* - provisionally dropped; UCM - under consideration (at least one submission received by Ministers); NSM - a first submission to go to Ministers.

31	Revalorisation of registration and deregistration thresholds	NSM		Preliminary leg. not requ.
32	Motor expenses	D	9/11	EST agreed to drop 20/11/87
33	Value of used goods	D		EST considers should be dropped 19/11/87
34	Tax on supply to be liability of person completing tax invoice	I		EST agreed inclusion 16/11/87
35	Amend. to VAT Act 1983 Sch. 1	I		EST agreed to drop 17/11/87
36	Computer evidence (Scotland)	D		EST agreed to drop 17/11/87
60	Disclosure of importers' details	NSM		Consultation with DTI progress unlikely until December
61	Search of persons	I	12/11	CX agreed inclusion
62	Penalty for Customs fraud	UCM	17/9	
63	Prosecution time limits	UCM	17/9	
64	CAP warehouses approval and controls	UCM	20/11	
110	Amend. to PRP leg	UCM/NSM	3/9	1 item drafted further sub. when reaction to new leg + IR Guidance Notes available
111	Review of S79 unapproved employee share scheme	I	22/7	Draft clauses published with consultative document
112	Employee priority shares in a public offer	I	5/11	Drafting completed. Announced in press notice on 23 September. But new proposal to widen exemption

116	FA 1984 Employee Share Option Schemes - restricted shares	I	5/10	Drafting completed
151	Personal pensions - delay in commencement date	I	13/11	Instructions sent to Counsel 21/10/87 but proposal to include some other minor changes
200	Close companies apportionment of interest	D*	5/11	FST does not regard this as essential for 88
203	Business Expansion Scheme	NSM		CX wished considered. Awaiting results of review submission expected at end of month
204	Capital Allowances: pre-consolidation amendments	NSM		Submission expected next week
205	Capital Allowances: transfers by exempt bodies	I	12/10	
206	Capital Allowances: fire safety etc	NSM		
208	Capital Allowances: enterprise zones	D	21/10	CX recommended dropping, 11/11
209	Capital Allowances: assured tenancies	NSM		Depends on outcome of review of tax. of private renting
210	Exchange gains and losses	NSM		
211	Abolition of relief for business entertaining of overseas customers	I	11/11	FST recommends <u>inclusion</u>
212	Small advertising gifts	D	11/11	FST recommends dropping
213	In-year assessment on Schedule D income	UCM	12/11	

214	Lloyds RIC Leavers	UCM	19/11	
215	Lloyds special Reserve Fund	UCM	17/11	<i>Either abolish or leave not +Δ</i>
216	<i>form</i> Lloyds: return of assessment and collection system	NSM		
217	Pension Scheme repayments	NSM		Awaiting ABL reps
251	IHT exemption for +T/Fs to political parties	I	30/10	FST agrees inst to Counsel
255	CGT: definition of investment trust	I	17/7	Drafting completed change announced in PQ 23/7/87
256	CGT: extension of roll-over relief to satellites and spacecraft	I		Drafting completed announced 27/7/87
257	CGT: Capital losses on building society and co-op shares	I	<i>Woolwich</i> 18/6	Drafting completed announced 3/7/87
258	CGT: indexation and groups	I*	12/10	Inst to Counsel 4/11/87
259	CGT: intra-group share exchanges	I*	21/9	FST provisionally approv. inclusion 23/9/87 Inst to Counsel 29/10/87
260	CGT: extensions of roll-over relief to milk and potato	I	23/9	FST approved inclusion 23/10/87 Relief announced 29/10/87
301	Stamp duty on shares	NSM		Submission by end November
302	Stamp duty: Channel Tunnel	I	21/9	FST approved inclusion 13/10/87 Inst. to Counsel 22/10/87
303	Abolition of Unit-Trust Instrument Duty	NSM		Submission by end November

350	PRT: Expenditure claims during safeguard periods	D	13/11	EST agreed to drop 30/11
351	PRT: Variations in assessments or determinations	D*	20/11	EST inclined to drop 19/11
352	PRT: Expenditure relief - tariffing arrangements	D	21/10	EST agreed to drop 26/10
353	Oil licence gains: work programme farm cuts	I*	20/8	EST agreed to provisional inclusion 2/11
400	Company residence and migration	USM	19/11	Case unlikely to come before European Court of Justice before Budget. Chance of success not good so pre-emptive leg. recommended
450	Tax appeals: General Commissioners for N.Ireland	I*	14/7	Views of consultative doc. requested by 20/11/87 Final decisions late December
451	Tax appeals: place of hearing by Gen. Commissioners	UCM	20/10	Consultative document issued 5/11/87 comments requested by 31/12/87
452	Keith Ctee: administrative improvements	I	15/7	
650	Public Accts + Charges Act 1891: tech amend to Sect 2(3)	UCM	17/11	
651	Gilts: redemption procedure	UCM	20/11	
652	Gilts: Small Estates	UCM	20/11	

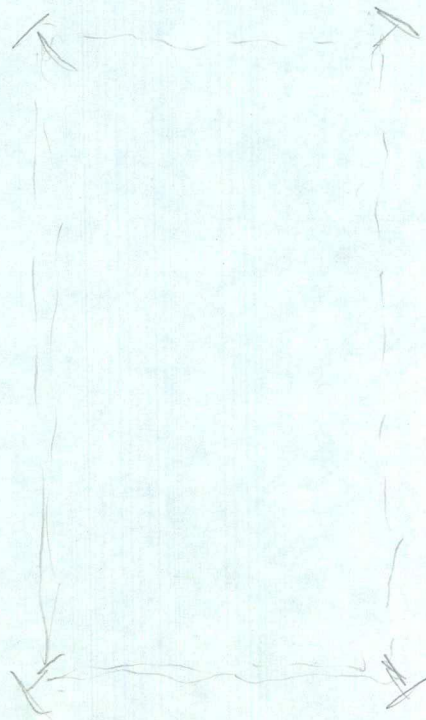


non-consultative

NAC

being nice to dead.

354
NSEA Fiscal Review



BUDGET STARTER: REFERENCE SHEET
TITLE: EXCISE:DUTY RATES

STARTER NUMBER: 1

CLASSIFICATION: A

Revenue £m*		(Full year)	Staff effect*		Length of legislation
cost(-)/yield(+)			1/4/89	1/4/90	
1988/89	1989/90				
+590	+1425		Nil	Nil	2 pages plus 12 pages of schedule

Minister in lead	Date instructions sent to Counsel	PCTA or equivalent resolution required
Chancellor		Yes. Up to 8 separate resolutions

ORIGIN OF STARTER: Customs. (Treasury for Vehicle Excise Duty (VED))

BACKGROUND AND COMMENTS:

Revenue yield is based on revalorisation of all specific excise duties (including VED) by 4.0 per cent, the inflation rate assumed for the 12 months prior to December 1987. The 1989-90 yield is based on a further revalorisation of 4.75 percent.

The official Treasury (FP) has policy responsibility for VED. Of the estimated length of legislation, 1 page plus 11 pages of schedule are attributable to VED.

A submission on the excise duty rates will be made before Christmas.

OFFICIAL IN LEAD: P R H ALLEN

TELEPHONE 2913 5023

OFFICIAL IN SUPPORT: MS A FRENCH

TELEPHONE 2913 5059

FP CONTACT: R G MICHIE

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

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

									Date 20 November 1987	
1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m		Staff Effect		Legislation		Other Comments
				cost(-)/Yield(+)				Length	Date	
				1988/89	1989/90	1/4/89	1/4/90		Inst. sent to Counsel	
1	Duty rates	NSM	-	+590	+1425	Nil	Nil	2 pages and 12 pages of schedules		1988-89 revenue yield is based on revalorisation of 4%. 1989-90 yield assumes a further revalorisation of 4.75%.
2	Duty differential for unleaded petrol	NSM	-	Variable		Nil	Nil	5 lines		Revenue cost of £0.6M per 1p tax differential for every percentage point of unleaded petrol market share
3	Definition of process of rendering wine or made-wine "sparkling"	UCM	4.11.87	Nil	Nil	Nil	Nil	10 lines		
4	Restructuring of wine and made-wine duties	UCM	4.11.87	Neg	Neg	Nil	Nil	2 pages		
5	Pool betting duty structure	NSM	-	Neg	Neg	Nil	Nil	31 lines		

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				cost(-)/Yield(+)		1/4/89	1/4/90			
6	Phased abolition of matches and mechanical lighters duties	NSM	-	-6	-12	Nil	-9	10 lines		
7	Abolition of minimum duty charge for beer	UCM	4.11.87	Neg	Neg	Nil	Nil	20 lines		
8	Power to assess beer, wine and cider duties	UCM	4.11.87	Neg	Neg	Nil	Nil	5 lines		
9	Remission of duty on spirits for medical or scientific use	UCM	4.11.87	Nil	Nil	Neg	Neg	15 lines		
10	Oil duties relief	UCM	20.11.87	Nil	Nil	Nil	Nil	23 lines		
11	Relief from duty of goods for testing	UCM	4.11.87	Nil	Nil	Nil	Nil	10 lines		

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 20 November 1987
10 11

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
30	Keith review	I	9.10.87	Neg	Neg	Nil	Nil	4-5 pages		Revenue cost of £5M in full year after 1990-91
31	Revalorisation of registration and deregistration thresholds	NSM	-	Neg	Neg	Nil	Nil	None	Not applicable	
32	Motor expenses	D*	9.11.87	Neg	Neg	Nil	Nil	5-10 lines		
33	Value of used goods	D	18.11.87	Nil	Nil	Nil	Nil	6-7 lines		
34	Tax on supply to be liability of person completing the tax invoice	I	13.11.87	+5	+5	Nil	Nil	5 lines		Revenue yield likely to increase if loophole becomes more widely exploited
35	Amendments to VAT Act 1983 Schedule 1	I	2.11.87.	Neg	Neg	Nil	Nil	10 lines		
36	Computer evidence (Scotland)	D	3.11.87.	Nil	Nil	Nil	Nil	1 line		

CONFIDENTIAL

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
60	Disclosure of importers' details	NSM	-	Neg	Neg	Neg	Neg	1 page		
61	Search of persons	I	12.11.87.	Nil	Nil	Nil	Nil	35 lines		
62	Penalty for customs fraud	UCM	17.9.87.	Nil	Nil	Nil	Nil	12 lines		
63	Prosecution time limits	UCM	17.9.87.	Neg	Neg	Neg	Neg	6 lines		
64	CAP warehouse approval and control	UCM	20.11.87	Nil	Nil	Nil	Nil	12 lines		

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)						
				1988/89	1989/90	1/4/89	1/4/90			
100	Income tax: allowances, thresholds & rates	UCM	14.7.87	Depends on decisions	Depends on decisions			2/3		Cost of 3.7% indexation of thresholds (£1060m in a full year) included in forecast.
101	Independent taxation of husband & wife	UCM	16.9.87	Nil	Nil	+110	+770	25	3.11.87 (part)	Implementation in 1990/91. Full year cost £700m.
102	Additional personal allowance: conversion to social security provision.	UCM	3.9.87	Depends on decisions	Depends on decisions			1/4		
103	Minor personal allowances - abolition	I	9.10.87	+10		-75	-100			A few lines
104	Benefits in kind - misc.	UCM	20.10.87	Depends on decisions	Depends on decisions					Depends on decisions

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**

Date: 20 November 1987

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No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)						
				1988/89	1989/90	1/4/89	1/4/90			
105	Benefits in kind - threshold	UCM	16.7.87	Depends on decisions		Depends on decisions		1/4		Cost & manpower effects depend on level of threshold and whether or not it includes car car fuel benefits.
106	Benefits in kind - car & car fuel benefits	I	22.10.87	Depends on decisions		Depends on decisions		Possibly up to 1/2		Changes to scale charges made by Treasury Order, but legislation may be necessary if changes to structure of car benefit scale to be made.
107	Benefits in kind - third party entertainment	I	16.7.87	Neg (-)	Neg (-)	Nil	Nil	6 (approx)	18.11.87	Exemption announced by FST on 25.9.87.

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUEDate: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)						
				1988/89	1989/90	1/4/89	1/4/90			
108	Benefits in kind - car parking	UCM	30.7.87	Depends on decisions	Depends on decisions			1/2 - 1		Estimates of cost, manpower & length of legn will need to be altered if car parking only partially exempted. Estimate of cost & manpower take into account that very little of charge is currently collected.
109	Benefits in kind - luncheon vouchers	NSM			Estimates not yet available					It is not certain that legislation would be required.

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**

Date: 20 November 1987

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No	Description	Status	Date latest submn	Revenue £m		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)		1/4/89	1/4/90			
110	Amendments to PRP legislation	UCM/ NSM	3.9.87	Not known (probably negligible cost and manpower effect).					22.9.87 19.10.87 (part)	Ministers have approved drafting one item. Submissions on others will be made as soon as possible, when early reactions to the new legislation and Revenue's recent Guidance Notes can be assessed.
111	Review of S79 Unapproved employee share schemes.	I	22.7.87	Neg		Neg		5	4.9.87	Draft clauses published 26.10.87.
112	Employee priority shares in a public offer.	I	18.9.87	Neg		Neg		1/2	Drafted	

Date: 20 November 1987

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+) 1988/89	1989/90	1/4/89	1/4/90			
				<u>Limit £30,000</u>						
113	Mortgage Interest Relief Limit for 1988-89	UCM	23.9.87	Nil	Nil	Nil	Nil		Few lines	
				<u>Limit £35,000</u>						
				-230	-320	-12	-10			
				<u>Limit £40,000</u>						
				-400	-550	-25	-20			
114	Mortgage Interest Relief: Residence Basis	UCM	23.9.87	<u>Limit £30,000</u>					2 or 3	
				April 1988 start +10	+30	+25-30	+25-30			
				August 1988 start +3	+20	+25-30	+25-30			
				<u>Limit £35,000</u>						
				April 1988 start -220	-290	+25-30	+25-30			
				<u>Alternative approach</u>						
				April 1988 start -260	-285	+25-30	+25-30			

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**

Date: 20 November 1988

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)		1/4/89	1/4/90	Length		
				1988/89	1989/90					
115	Mortgage interest relief: restriction of relief for home improvements	UCM	27.10.87	+100	+250	-150	-200	1		
116	FA 1984 Employee Share Option Schemes: Restricted Shares	I	5.10.87	Neg		Neg		8 lines	Drafted	
150	Maintenance payments and covenants.	UCM	13.11.87	Depends on decisions		Depends on decisions		Depends on decisions		
151	Personal pensions - delay in commencement date.	I	24.8.87	+10	+10	To be assessed		1	21.10.87	
200	Close companies - apportionment of interest	D	5.11.87	Neg	Neg	Neg	Neg		--	
201	CT rate for FY 1988	NSM		+10	+350	Nil	Nil	2 lines		

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**
Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
202	Small companies rate of CT for FY 1988	NSM		Neg	+25	Nil	Nil	4-9 lines		
203	BES	NSM			N/K		N/K	N/K		
204	Capital allowances: pre-consolidation amendments	NSM			Depends on decisions but should be very small.		Negligible	say 6-10		
205	Capital allowances: transfers by exempt bodies.	I	12.10.87		Nil	Nil	Negligible	1/2		Potential revenue saving long-term, say, £540m (net present value).
206	Capital allowances: fire safety etc	NSM			Depends on decisions		Negligible	Up to 1/2		
208	Capital allowances: enterprise zones	D	21.10.87		Depends on decisions		Negligible	-	--	

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**
Date: 20 November 1987

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				cost(-)/yield(+)		1/4/89	1/4/90	Length	Date inst. sent to Counsel	
				1988/89	1989/90					
209	Capital allowances: assured tenancies	NSM		Depends on decisions		Negligible		Depends on decisions		Depends on developments in Housing Policy.
210	Exchange gains and losses	NSM		Depends on decisions		Negligible		say 20		Submission to Treasury Ministers by end-October 1987
211	Abolition of relief for business entertaining of overseas customers	UCM	11.11.87	N/K	N/K	Negligible saving		say 1/2		
212	Small advertising gifts	UCM	11.11.87	Increase to:		Negligible saving		Few lines		
				£15	Nil	-3				
				£20	Nil	-4				
				£25	Nil	-5				

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue £m		Staff Effect		Legislation	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)				Length		
				1988/89	1989/90	1/4/89	1/4/90			
213	In-year assessment on Schedule D income	UCM	12.11.87	+60 to 70		Saving of at least 40		say 1/2		This starter would avoid what would otherwise be a once and for all revenue cost of £m60-70 and a continuing staff cost of at least 40, if the Courts uphold the Special Commissioners decision.
214	Lloyd's RIC leavers	UCM	19.11.87	Probably negligible		Probably small		3/4		Cost and staff effects depend on details of relief.
215	Lloyd's Special Reserve Fund (SRF)	UCM	17.11.87	Neg	-3 to -20	Neg	Nil to + or - 10	Up to 1		Cost, staff effects and length of legislation all dependent on nature of change - for discussion with Lloyd's.

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**
Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue £m		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)		1/4/89	1/4/90			
216	Lloyd's - reform of assessment and collection system.	NSM		Neg	Neg	Neg	-20 to -50	Up to 2		Staffing effects and length of legislation dependent on details of changes - for discussion with Lloyd's.
217	Pension fund repayments	NSM			[-100]		Nil	1/2		
250	IHT - rates and bands	NSM		-25	-60		Indexation alone will add to staff needs (increase of 20% in caseload)	1/2		Costs reflect effect of automatic indexation and are already assumed in the forecast.
251	IHT - exemption for transfers to political parties	I	9.11.87	Nil	Nil	Nil	Nil	1/2		
252	CGT: main proposal	UCM	1.7.87	Nil	Neg	Nil	Nil	25	6.8.87 21.10.87 30.10.87 (part)	

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
253	CGT - husband and wife	I*	6.8.87	Nil	Nil	Nil	Nil	1/4	Drafted	Full year cost -£90m.
254	CGT - annual exempt amount	I		Nil	Nil	Nil	+15	Few lines	18.11.87	
255	CGT - definition of an investment trust.	I	17.7.87	Nil	Nil	Nil	Nil	1	Drafted	
256	CGT - extension of rollover relief to satellites and spacecraft	I	24.7.87	Yield effect fluctuates from year to year - in some years nil, in others could be several million.		Neg	Neg	11 lines	Drafted	
257	CGT - capital losses on building society and co-operative shares.	I	18.6.87	Impossible to quantify. Revenue at risk if no action taken.		Neg	Neg	1/3	Drafted	
258	CGT - indexation and groups.	I*	12.10.87	Substantial revenue at risk if no action taken.		Neg	Neg	Depends on decisions. Could be up to 2 pages.	4.11.87	

**BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE**

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+) 1988/89	1989/90	1/4/89	1/4/90			
259	CGT - intra-group share exchanges	I*	21.9.87	Legislation is to prevent, for the future, both avoidance of tax and, in other cases, the charging of gains twice.		Nil	Nil	Up to 1/3	29.10.87	
260	CGT: milk and potato quota	I	23.9.87	Neg	-5 or less	Neg	Neg	1/2		Relief announced 29.10.87.
300	Stamp duty threshold:	UCM	10.11.87							
	(a) £30,000			Nil	Nil	+10	+10	Nil		
	(b) £40,000			-270	-360	-10	-10	1/3		
	(c) £50,000			-420	-580	-20	-20	1/3		
301	Stamp duty on shares	NSM		-480	-480	Nil	Nil	1/5		
302	Stamp duty - Channel Tunnel	I	21.9.87	Neg	Neg	Neg	Neg	1/3	22.10.87	
303	Abolition of Unit Trust Instrument Duty	NSM		-30	-30	Neg	Neg	1/3		Capital duty will also need to be considered

BUDGET STARTERS: SUMMARY SHEETS

DEPARTMENT OF TRANSPORT

										Date October 1987	
1	2	3	4	5	6	7	8	9	10	11	
No	Description	Status	Date latest sub mn	Revenue £m		Staff Effect		Legislation Length	Date inst sent to Counsel	Other Comments	
				Cost(-)/Yield(+) 1988/89	1989/90	1/4/89	1/4/90				
	eligible for restricted HGV rate of VED			-£0.3m	-£0.3m	Nil		3-4 lines			
633	Change in criterion for concessionary rate for vehicles 'registered' pre 1.1.47 to manufactured pre 1.1.47	NSM		small		-	-	6-8 lines			
634	Ambulance and new welfare vehicle taxation classes	NSM		Neg Cost		Nil	Nil	1 page +4 lines			

BUDGET STARTERS: SUMMARY SHEETS

TREASURY

									Date October 1987	
1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub mn	Revenue £m		Staff Effect		Legislation	Date inst sent to Counsel	Other Comments
				Cost(-)/Yield(+)	1988/89	1989/90	1/4/89	1/4/90		
650	Public Accounts & Charges Act 1891: technical amendment to Section 2(3)	UCM	-	Neg	Neg	Neg	Neg	Say 5-10 lines		Administrative simplification and avoiding illegality of present Treasury practice
651	GILTS REDEMPTION PROCEDURES	UCM	20/11	Neg	Neg	Nil	Nil	1-2 pages		simplification of procedures for repaying gilts redemption moneys. Minor staff savings at Bank.
652	GILTS: SMALL ESTATES	UCM	20/11	Neg	Neg	Nil	Nil	1-2 pages		



FROM: MISS S J FEEST
DATE: 23 NOVEMBER 1987

PS/CHANCELLOR

cc Chief Secretary
Paymaster General
Economic Secretary
Miss Evans
Mr Cropper
Mr Tyrie
Mr Call

Mr Hudson .

MINOR BUDGET STARTERS

With the Chancellor's meeting tomorrow in mind, I attach herewith summary sheets relating to the progress made on the Financial Secretary's budget starters.

I also attach a list showing clearly the decisions made or pending on each of the Minor Starters.

SUSAN FEEST
ASSISTANT PRIVATE SECRETARY

SECRET



FINANCIAL SECRETARY'S MINOR BUDGET STARTERS

Starters definitely included:-

- 111 - Review of Section 79 FA 1972
- 112 - Employee Priority Shares in Public Offer
- 116 - FA 1984 Employee Share Option Schemes
- 151 - Personal Pensions
- 205 - Capital allowances: transfers
- 211 - Abolition of relief for business entertaining of overseas customers
- 255 - CGT: Definitions of Investment
- 256 - CGT: Extension of rollover relief to satellites and spacecraft
- 257 - CGT: Capital losses on Building Society and Co-operative Society Shares
- 260 - CGT: Milk and Potato Quotas
- 302 - Stamp Duty: Channel Tunnel
- 452 - Keith Committee administrative improvements
- 454 - Shelters Exercise
- 650 - Public Accounts and Charges Act 1891

Starters: Provisionally included

- 251 - Inheritance Tax - Exemption for Transfers to political parties
- 258 - CGT: indexation and groups
- 259 - CGT: intergroup shares exchanges
- 450 - Tax Appeals - General Commissioners for Northern Ireland
- 451 - Tax Appeals - Place of hearing by General Commissioners

Starters: submissions received but not settled

- 150 - Maintenance Payments and Covenants
- 213 - In year assessment on Sch D income
- 214 - Lloyd's RIC - leavers etc
- 215 - Lloyd's Special Reserve Fund

Starters: submissions received but not settled (Continued)

- 300 - Stamp Duty £30000 Threshold
- 301 - Stamp Duty: rate of duty on shares
- 400 - Company Residence and migration

Starters: Submissions outstanding

- 203 - Business Expansion Scheme
- 206 - Capital Allowances: Fire Safety etc.
- 209 - Capital Allowances: Assured Tenancies
- 210 - Exchange Gains and Losses
- 216 - Lloyd's - reform of assessment and collection system
- 217 - Pension Schemes Repayments
- 303 - Abolition of Unit Trust Instrument Duty

STARTERS: DROPPED

- 200 - Close companies apportionment and interest
- 204 - Capital Allowances pre consolidation amendments
- 208 - Capital Allowances Enterprise Zones
- 212 - Small Advertising Gifts

<u>STARTER No.</u>	<u>MINISTER IN LEAD</u>	<u>DESCRIPTION OF STARTER</u>	<u>COMMENTS</u>
<u>Personal Tax</u>			
100	Chx	Income Tax: Allowances, Thresholds and Rates	
101	Chx	Independent Taxation of Husband and Wife	
102	Chx	Additional Personal Allowance - Conversion to Social Security Provision	
103	Chx	(Minor Personal Allowances - Abolition	
104	Chx	(Benefits in Kind - Miscellaneous	
105	Chx	(Benefits in Kind - Threshold	
106	FST	(Benefits in Kind - Car and car fuel benefit	Submission Received
107	FST	(Benefits in Kind - Third Party Entertainment	Exemption announced by FST on 25 September 1987
108	Chx	(Benefits in Kind - Car Parking	Submission Received
109	FST	(Benefits in Kind - Luncheon Vouchers	Submission due mid-November
110	PMG	Amendments to Profit-Related Pay Legislation	Ministers have approved drafting one item - Submission on others will be made soon.
111	FST	Review of Section 79 FA 1972 Unapproved Employee share scheme	Clauses out to consultation

STARTER No.MINISTER
IN LEADDESCRIPTION OF STARTERCOMMENTS

112	FST	Employee Priority Shares in Public Offer	Instructions sent to Counsel on 23 September 1987
113	FST	(Mortgage Interest Relief (Limit for 1988/89 (Under Consideration
114	FST	(Mortgage Interest Relief TASK (Residence Basis (Under Consideration
115	FST	FORCE (Mortgage Interest Relief (Restriction of relief for home (improvements	Under Consideration
116	FST	FA 1984 Employee Share Option Schemes: restricted shares	Instructions sent to Counsel on 7 October 1987
<u>Savings and Investment</u>			
150	FST	Maintenance payments and covenants	Submission received
151	FST	Personal Pensions: delay in commencement date	Definitely included
<u>Business Taxation</u>			
200	FST	Close companies apportionment and interest	Submission received
201	FST	CT rate for Financial year 1988	Decided already
202	FST	Small companies rate of CT for Financial year 1988	Decided already
203	FST	Business Expansion Scheme	Interim submission due Late-November

STARTER No.MINISTER
IN LEADDESCRIPTION OF STARTERCOMMENTS

204	FST	Capital Allowance pre-consolidation amendments	Dropped
205	FST	Capital Allowances: transfers	Submission received and agreed
206	FST	Capital Allowances: Fire Safety etc	Submission due end of November
208	FST	Capital Allowances: Enterprise zones	Dropped
209	FST	Capital Allowances: Assured Tenancies	Depends on developments in Housing Policy
210	FST	Exchange Gains and Losses	Submission outstanding but policy may not be suggested for 1988 FB.
211	FST	Abolition of relief for business entertaining of overseas customers	Submission received and agreed
212	FST	Small advertising gifts	Dropped
213	FST	In Year assessments on Schedule D Income	Submission received
214	FST	Lloyd's RIC - leavers etc	Submission received
215	FST	Lloyd's Special Reserve Fund	Submission received
216	FST	Lloyd's - reform of assessment and collection system	Meetings are being held with Lloyds in mid-November
217	FST	Pension Schemes Repayments	Meetings are being held with Lloyd's in mid-November

STARTER No.MINISTER
IN LEADDESCRIPTION OF STARTERCOMMENTSCapital Taxes

250	FST	Inheritance Tax: Rates and Bands	
251	FST	Inheritance Tax - Exemption for Transfers to political parties	Submission received and approved
252	Chx	CGT: General changes in taxation of Capital Gains	
253	Chx	CGT: Husband and Wife	
254	Chx	CGT: Annual Exempt amount	
255	Chx	CGT: Definition of investment	Drafted by Counsel and announced
256	FST	CGT: Extension of rollover relief to satellites and spacecraft	Drafted by Counsel and announced
257	FST	CGT: Capital losses on Building Society and Co-operative Society Shares	Drafted by Counsel and announced
258	FST	CGT: indexation and groups	Provisionally included
259	FST	CGT: intergroup shares exchanges	Provisionally included
260	FST	CGT: Milk and Potato Quota	Submission received and agreed

STARTER No.MINISTER
IN LEADDESCRIPTION OF STARTERCOMMENTSStamp Duty

300	FST	Stamp Duty: £30,000 Threshold	Submission received
301	FST	Stamp Duty: rate of duty on shares	Submission received
302	FST	Stamp Duty: Channel Tunnel	Provisionally included
303	FST	Abolition of Unit Trust Instrument Duty	Submission due mid-November

International
Taxation

400	FST	Company residence and migration	Submission received
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Miscellaneous

450	FST	Tax Appeals - General Commissioners for Northern Ireland	Included
451	FST	Tax Appeals - Place of hearing by General Commissioners	Included
452	FST	Keith Committee administrative improvements	Submission received
453	Chx	Mr Monck's Working Group proposal	
454	FST	Shelters Exercise	Submission received.
650	FST	Public Accounts and Charges Act 1891 Amendment to Section 2(3)	Submission received <i>and agreed</i>

BURNHAMS
TO
AS/CH
23-11-87

FROM: MRS T C BURNHAMS
DATE: 23 NOVEMBER 1987

APS/CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Mr Cassell
Mr Scholar
Mr Culpin
Miss Sinclair
Miss Evans
Mr Cropper
Mr Call
Mr Tyrie
PS/IR
Mr Isaac - IR
Mr Painter - IR
Mr Beighton - IR
Mr Shaw - IR
PS/C&E
Mr R Allen - C&E
Mr Jenkins - Parliamentary
Counsel

MINOR BUDGET STARTERS

Further to my minute of 20 November you will wish to note that the Economic Secretary has now made decisions on the following starters

No

5	Pool betting duty structure) recommends
10	Oil duties relief) dropping
351	PRT: variants in assessments or determinations)
651	Gilts: redemption procedure) recommends
652	Gilts: small Estates) inclusion

In addition the following corrections to the minor Starters List should be made:

No

6	the comment should refer to the MMC report
31	the comment should read - Primary legislation not required
35	the comment should read - EST agreed to include 11/11/87



T C BURNHAMS



FROM: J M G TAYLOR

DATE: 23 November 1987

MRS BURNHAMS

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Culpin
Miss Sinclair
Miss Evans
Mr Cropper
Mr Call
Mr Tyrie

PS/IR
Mr Isaac - IR
Mr Painter - IR
Mr Beighton - IR
Mr Shaw - IR
PS/C&E
Mr R Allen - C&E
Mr Jenkins - Parliamentary
Counsel

MINOR BUDGET STARTERS

The Chancellor was grateful for your minute and enclosures of 20 November. He looks forward to discussing these at the planned meeting.

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

J M G TAYLOR

DRAFT MINUTE FROM MR TAYLOR TO MRS BURNHAMS

MINOR STARTERS

The Chancellor was grateful for your minute of 26 November.

2. He is most grateful to all concerned for the large volume of work which lies behind this minute and which has been needed to achieve the satisfactory progress made so far. He therefore sees no need for a meeting and is content to confirm Ministers' decisions as recorded in the list attached to your minute. He notes that the Bill represents a very heavy drafting burden and he is most anxious to keep up the momentum to ensure that Parliamentary Counsel is able to press ahead as quickly as possible.

3. The Chancellor thinks that the length of the Bill is just about manageable but feels that we must continue to exercise severe restraint and keep further additions to the absolute minimum.

[JT]



FROM: J J HEYWOOD
DATE: 23 NOVEMBER 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Miss Sinclair
Mr Instone
Mr Cropper
Mr Jenkins Parl Counsel
Mr Willis IR
PS/IR

STAMP DUTY: £30,000 THRESHOLD: STARTER 300

The Financial Secretary has read Mr Willis' submission of 10 November, which points out that it would be helpful for officials if Ministers could indicate whether any options could be put to one side at this stage.

2. The Financial Secretary's view is that there is a good case for doing nothing on this in 1988, even though that would have some marginal (undesirable) manpower implications. He thinks that any alleviation of the regime would quickly feed through into house prices.

3. For this reason the Financial Secretary is certainly not attracted to a halving of the stamp duty rate (Option 2). He sees slightly more of a case for exempting the first £30,000 slice of all transfers (Option 3), but does not think, on the whole, that the present "cliff-edge" regime creates too many distortions.

4. The Financial Secretary's preference would therefore be to stick with the present regime and to consider nearer Budget time at what level to set the threshold.

J.J.H.

J J HEYWOOD
PRIVATE SECRETARY



Jonathan
Apr 11

PS/CHANCELLOR

FROM: J J HEYWOOD
DATE: 23 November 1987cc PS/Chief Secretary
PS/Economic Secretary
Sir P Middleton
Mr Cassell
Mr Scholar
Mr Culpin
Mrs Lomax
Mr Cropper
Mr Jenkins - OPC
Mr Painter - IR
Mr McGivern - IR
Mr Spence - IR
PS/IR**LLOYD'S : STARTERS 214 AND 215**

The Financial Secretary has read Mr Spence's minutes of 17 and 19 November concerning respectively the Special Reserve Fund (Starter 215) and the Leavers Problem (Starter 214).

Special Reserve Fund

2. At this stage the Financial Secretary is inclined to leave this one open. He thinks that the leading options are either to abolish it or to do nothing. But he would like to discuss the issue in a little more detail with Peter Miller before giving the Chancellor his considered advice. Mr Painter has also been discussing the SRF with Alan Lord and the Financial Secretary will want to consider Mr Painter's advice in the light of Lloyd's detailed arguments. (The Chancellor will have seen my note of the Financial Secretary's lunch with Lloyd's which reported some of these arguments).

Leavers Problem

3. The Financial Secretary recalls that Mr Lord referred to this

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issue as a "fringe problem" at the recent lunch with Lloyds. Nevertheless, it aroused some parliamentary interest in the summer, and it is clear that we may be able to legislate to meet the point. The Financial Secretary thinks that it would be best to work this one up into a firm starter but to keep it up our sleeves, as a possible concession to Lloyd's in case we decide to be unhelpful on the SRF.

J.H.

JEREMY HEYWOOD
Private Secretary



FROM: P D P BARNES
DATE: 23 November 1987

MRS HUBBARD - IR

cc PS/Chancellor ²
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Cassell
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Williams
Ms Leahy
Mr Jenkins - Parly Counsel

Mr Painter - IR
Mr Johns - IR
PS/IR

STARTER NO. 351 : PRT : VARIATIONS IN ASSESSMENTS FOR DETERMINATIONS

The Economic Secretary was grateful for your submission of 20 November.

2. The Economic Secretary thinks that it would be easy to defend legislation which it proved necessary to introduce if there were a successful challenge to existing practice. On this basis, he would like to drop this starter from the 1988 Finance Bill.

RB

P D P BARNES
Private Secretary



Inland Revenue

Policy Division
Somerset House

FINANCIAL SECRETARY

23 NOVEMBER 1987

STAMP DUTY: RATE OF DUTY ON SHARES: STARTER 301

The attached paper considers the case for a reduction in the rate of stamp duty and stamp duty reserve tax (SDRT) on shares from 0.5% to 0.25% (or some other figure). It has been prepared in consultation with the Bank and Treasury (FIM and FP).

2. The prospects for revenues from stamp duty and SDRT are uncertain. Revenue depends on the value of turnover. The volume of turnover depends to a large extent on the rate of change of share prices. That cannot be predicted with any confidence after the sudden changes in October. The attached paper discusses some of the movements of price and turnover we might see over the next year or two, and Table 1 gives examples of the revenues for illustrative assumptions. The paper also reports briefly on the work the Bank and

cc Chancellor

CST

PMG

EST

Sir Peter Middleton

Mr Cassell

Mr Scholar

Mrs Lomax

Miss Sinclair

Mr C J Riley

Mr Neilson

Mr Tyrie

Mr Cropper

Mr Jenkins (Parl. Counsel)

Mrs Jackson (Bank)

Mr Isaac

Mr Corlett

Mr Beighton

Mr Calder

Mr Johnston

Mr Cleave

Mr Spence

Mr Gonzalez

Mr Pipe

Mr Pape

Mr Adderley

PS/IR

Mr Willis

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Treasury have undertaken to update the model of stamp duty revenues. We will report on that work in the New Year. But for the present the margins of uncertainty for the Budget arithmetic are large - of the order of several hundred millions. All we can safely say is that revenue from stamp duty on shares is likely to be substantially lower than in pre-October forecasts.

3. Table 2 summarises the main arguments for and against a change in the rate. Paragraphs 24-25 of the paper summarise our conclusions on the case for a reduction. There is, as always, a case for helping the equity market by cutting tax on equity transactions. But there would be no prospect of putting together a revenue neutral package along the lines of 1986. Reducing the rate therefore has to be looked at in the context of the Budget arithmetic and the alternative options for reducing tax, including reducing stamp duty on houses.

4. The question is less if it would be right to reduce stamp duty on shares and more if 1988 would be the right time to do so. The Bank think it might be, while FP, FIM and we feel there are higher priorities in other areas for the 1988 Budget. The main reason for a reduction would be if London was suffering competitively, of which there are currently no signs. However in the Bank's view stamp duty, by affecting the liquidity and depth of the London market, affects the willingness of foreign investors to place their funds here and therefore the ease with which UK companies can raise additional capital.

5. There are negligible staffing implications in a change of rate. Abolition of tax on share transactions would save some 70 staff.



R WILLIS

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TABLE 1

RATE OF DUTY ON SHARES

ILLUSTRATIVE FORECASTS OF REVENUE IN 1988-89 FOR 0.5% RATE

ASSUMPTION	£m
1) Prices increase slightly from their post-October level with rapid changes, leading to volumes of turnover around pre-October levels.	1,000
2) Prices increase slightly from their post-October level with few fluctuations: volumes of turnover are around the level in early 1987-88	650

Notes

- (1) These are illustrative figures, for yield based on the assumed price and turnover figures. No reliable forecasts can be made until the post-October market is clearer.
- (2) A reduction in the rate of duty from 0.5% to 0.25% would reduce revenues by about one-third. This takes account of the increases in turnover and prices which the stamp duty model predicts a reduction in tax would generate.

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TABLE 2

MAIN FORCES FOR AND AGAINST CHANGING STAMP DUTY/SDRT ON SHARES

For a reduction

liquidity of equity market

international competitiveness of Stock Exchange and UK securities

commitment to wider share ownership and free market

cost of dealings/arbitrage

cost of capital for UK companies

easier to defend against charge of hand-out to the City, and less expensive, with stock market fall

for abolition additionally:

strong psychological boost to City

international market not suited to national tax

EC proposal to abolish all such taxes by 1990

staff savings and simplification

Against a reduction

revenue cost and worsening cost/yield ratio of SD/SDRT

too soon to say Stock Exchange needs a further reduction after 1986 package.

encourages short term speculation

profitability of dealings in equities

comparison with 1% duty on houses and risks of securitisation to avoid it

stock market contributing less to Exchequer after recent fall, and could look like special treatment

Against abolition additionally:

easy source of revenue from institutions

no alternative source of revenue from financial transactions

comparison with duty on houses

obvious risk of avoidance of duty on land and buildings

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STAMP DUTY AND STAMP DUTY RESERVE TAX ON SHARES

INTRODUCTION

This note, which has been agreed with Treasury and Bank officials:

- i. summarises the present position on stamp duty and stamp duty reserve tax (SDRT) on shares; and
- ii. considers the arguments for and against a reduction in the rate of tax to 0.25%

PRESENT POSITION

What is taxed

2. The 1986 Budget:

- a. reduced the rate of stamp duty on shares from 1% to 0.5%
- b. introduced SDRT at 0.5% on transactions which were previously not liable to stamp duty: eg
 - i. intra-account dealing;
 - ii. dealings in letters of allotment;
 - iii. dealings through a nominee who holds the shares for buyer and seller.

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- c. introduced a 1.5% stamp duty or SDRT charge on transfers into depositary receipts and clearance services, to counter avoidance of stamp duty and so protect the main stamp duty revenues.
3. This package was intended to be revenue neutral. The reduction in revenues from halving the rate of duty was expected to be balanced by i) increased turnover in shares and ii) the additional revenue from SDRT on transactions previously free of duty.
4. Stamp duty and the reserve tax do not apply to:
 - a. gilts
 - b. loan stock
 - c. options
 - d. units in a unit trust bought from or by the managers
 - e. foreign shares (unless kept on a UK register)
 - f. market makers' purchases; and
 - g. broker/dealers' purchases if they sell on within 7 days.

The possibility of extending the tax to these has been considered by Ministers from time to time, but rejected because of the need for liquidity in particular markets, or the risks of driving business off-share, or (in the case of gilts) the wider PSBR cost.

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Revenue outturns

5. Since the rate was cut to 0.5% in the 1986 Budget the yield from shares has continued to increase because of i) faster than expected growth in turnover and ii) increases in share values. The value of turnover in UK ordinary shares traded on the Stock Exchange doubled between July-September 1986 and the same quarter this year.

Yield from shares (£m)

1984-85	360
1985-86	520
1986-87	850

Revenue forecasts

6. Before October revenues were expected to continue to grow. The yield in 1987-88 was likely to be about £m1,170. Forecasts for 1988-89 and 1989-90 were £m1,390 and £m1,530.
7. The outlook after October is, at present, of much greater uncertainty. After reaching record levels while the market was falling quickly there are signs that turnover is stabilising at lower levels than before the fall, though it is far too early to say this with any confidence.
8. Stamp duty revenues are sensitive to changes in the market because they depend on the product of share prices and the volume of turnover, and turnover is in turn dependent upon the volatility of share prices. So turnover could remain high even if we do not continue to experience steadily rising prices. This leaves open many different scenarios for the next year or two, including for example:

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- a. the market could become sluggish with low turnovers - and hence low revenues;
 - b. the market might bounce back with turnover (if not necessarily prices) near to pre-October levels, with revenues recovering correspondingly;
 - c. prices could become volatile, generating high turnover and hence high revenues.
9. Table 1 above shows the revenues for two illustrative assumptions about the value of turnover subject to stamp duty and SDRT. However these are only assumptions - not forecasts. We think any single estimate of the yield in 1988-89 or 1989-90 would be misleading. It could easily turn out to be wrong by £500 million or more.
10. We may be in a better position to estimate revenues in the New Year, in the light of further experience of turnover post-October, and the further work by the Bank on the model of share transactions, prices and stamp duty revenues. The Inland Revenue's central forecast will be included in the Treasury's winter economic forecast which is due in mid-January. We propose to report again before Chevening.

The 1986 package

11. Yield from SDRT is about £100 million (excluding privatisations) in 1987-88. However stamp duty and SDRT are best looked upon as a single tax, despite their different codes.

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12. Yield from American depositary receipts (ADRs) and clearance services was not the purpose of the 1.5% charge. The higher rate was meant to protect the mainstream yield by eliminating the tax advantage of ADRs so that, if investors chose to purchase ADRs, the charge would broadly recompense the loss of stamp duty on subsequent purchases. This was the concept of the "transferable season ticket".
13. The latest figures from the Bank (Table 3) suggest this has been achieved. The very rapid growth in ADRs before the 1986 Budget has been halted. The stock of ADRs continues to grow, but less rapidly and (to some extent) because of issues aimed specifically at the North American market - including privatisation issues.
14. This is borne out by Revenue information on the yield from the 1.5% charge. Conversions into ADRs over recent months were yielding about £m3 - a conversion into ADRs of about £m200 of stock a month or £bn2.5 a year. Growth in the ADR market obviously needs watching. But with reconversions the actual stock grows by less than the conversions (eg about £bn1.4 in 1986-87). We think the 1.5% rate seems to be doing the job.
15. The effectiveness of the ADR tax depends on the ratio of the higher rate to the main rate so a reduction in the main rate to 0.25% could be accompanied by a reduction in the higher rate to 0.75%. However this is a detail which does not bear on the Budgetary arithmetic and could be decided subsequently.

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ARGUMENTS FOR AND AGAINST A CHANGE IN RATE

Arguments for a reduction in rate

16. The main arguments for reducing the rate below 0.5% are that lower tax:

- a. increases turnover and the liquidity of the equity market, and increases share prices.
- b. reduces cost of arbitrage deals helping to make the market more efficient;
- c. increases the international competitiveness of the Stock Exchange. A more liquid market with lower transaction costs would be more attractive to overseas investors. (But foreign shares which are not registered in the UK are already outside stamp duty and SDRT and traded freely.)
- d. reduces cost of transactions, and thus
- e. signals commitment to wider share ownership and free market;
- f. reduces cost of public offers which involve renounceable documents - and hence makes cost of coming to the market a bit lower. Companies would also benefit from the increase in equity prices which would follow from a reduction in transaction costs.

and for making the reduction in 1988 because

- g. the absolute cost of the revenue forgone is likely to be less as a result of recent changes in the stock market, and

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- h. the difficulty of being seen to help the City would be less than in boom times.

- 17. Arguments (a) - (f) were used in 1986 to support the reduction in the rate of stamp duty on shares to 0.5%. One of the key arguments was that increased turnover would help offset the revenue lost by cutting the rate.

A model of stamp duty from share transactions devised by the Bank and Treasury (the Jackson/O'Donnell model) suggested that 80% of the cost of cutting the rate would be recouped from higher values of transactions (turnovers x prices). The introduction of SDRT and the ADR tax then made up a package which was intended to be revenue neutral.

- 18. The same model suggests a rate of 0.25% would lead to increased turnover which, with some further effect on prices, would mean that halving the rate would cost about one-third of the stamp duty revenue.
- 19. However since the model was devised the market has changed with lower transaction costs and a different market structure. Privatisation issues have also been a complicating factor. This makes interpreting data since 1984 very tricky. The model is currently being reworked it to take account of the new data, and to allow for the impact of privatisations. The results of this further work will be reported with the revised forecasts of yield before Chevening.

Arguments against a reduction in rate

- 20. The main arguments for keeping the rate at 0.5% are:
 - a. the revenue comes from transactions which are generally profitable and is cheap to collect;

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- b. stamp duty and SDRT small compared with commissions charged for small bargains (typically £20 - 2% - for £1,000 . Investments via nominees (eg PEPs) can have commissions as low as 0.2%; but Ministers have already decided not to remove stamp duty on PEP purchases alone.)
- c. stamp duty/SDRT negligible if shares bought as a long term investment. Should not encourage short term speculative trading; and some economists argue the equity market should not be so liquid.
- d. transaction costs in London not out of line with other markets - other than the USA where there is no tax;
- e. any change would draw attention to the higher (1%) rate for houses and land, and increase the incentive to avoid stamp duty on land by securitisation,
- f. worsening of cost/yield ratio of stamp duty generally. SDRT is a quite complex system which can only be justified so long as it brings significant yields.

and additional arguments against a change in 1988 are that;

- g. the recent changes in the stock market seem certain to reduce stamp duty revenues, leaving the City with a smaller share of the overall tax bill. This argument is not entirely logical because investors generally

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pay the duty and companies bear the results in terms of lower equity prices. But a cut in stamp duty would probably be criticised in terms of "the City" and there is then

- h. the risk of being seen to help the City out of difficulties when other industries have been left to sink or swim by their own efforts.

ARGUMENTS FOR AND AGAINST ABOLITION

21. There are additional arguments for and against abolishing the tax on shares.

22. For abolition there is:

- a. the psychological effect of removing altogether the charge on share dealings;
- b. the difficulty of maintaining a UK tax on transactions in a global market;
- c. the proposal from the European Commission to abolish by 1990 all taxes on transactions in securities.
- d. staff savings and simplification

23. Against abolition there is:

- a. no immediate alternative source of revenue from the financial sector. Mr Cassell reported in his note of 4 August the difficulties of moving to, say, a tax on personal financial transactions;

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- b. the possibility of building up expectations of early abolition of all stamp duties.
- c. obviously greater risk of avoidance by securitisation unless duty on real property is abolished at some time.

CONCLUSION ON CASE FOR AND AGAINST CHANGE

24. The Bank and the market side of the Treasury believe that the abolition of stamp duty and SDRT on shares would be right in principle, and in the long term may be inevitable anyway. But early agreement within the EC to abolish all taxes on transactions in securities by 1990 is far from certain, and there is still a long way to go before there is a free market worldwide. Although there is no tax on share transactions in the USA, many other countries (including France, West Germany and Italy) still tax transactions in securities. London firms have managed to go on increasing their share of the market (and their incomes). Stamp duty/SDRT is useful source of revenue and arguably there are higher priorities in the field of tax policy than abolishing this particular tax.
25. The argument for reducing the rate is that it would help the equity market. Halving the rate would be expensive (nearly £1/2 billion in 1988-89 on pre-October forecasts and £1/4 billion on fairly pessimistic assumptions post-October). It could be difficult to resist pressure for a corresponding reduction in stamp duty on houses, where the rate was not reduced in 1986. If stamp duty on houses were also reduced, say to 0.5%, the cost would rise to about £3/4 billion.

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TABLE 3

VALUE OF UK COMPANIES' SHARES BACKING ADRs ISSUED BY 4 MAJOR
US BANKS

		£m
1986	APRIL	4,347
	JULY	4,819
	OCTOBER	5,094
	NOVEMBER	5,162
	DECEMBER	5,295
1987	JANUARY	5,658
	FEBRUARY	5,780
	MARCH	n/a
	APRIL	5,707
	MAY	5,588
	JUNE	5,423

- Notes:
1. Source: Bank of England
 2. Values at end-1985 prices
 3. Sharp increase in January reflects British Gas issue

Ch

Do you want a
view from party counsel?
(Mr Jenkins - with
heard between Carolyn
& Andrew)

AA

Chaneller



Ch

Michael's house has
been broken into &
he's gone off to
attend to it. He
sends his apologies for
missing minor states
meeting.

AA



Ch

The master list for the meeting is attached at Flag A to Mrs Burnham's minute of 20/11. I suggest that you simply go through the starters in that minute in order.

JH
23/11

RESTRICTED.

24/11



CHANCELLOR OF THE EXCHEQUER'S OFFICE: MEETING

REVISED MEETING NOTICE.

SUBJECT	Munoir Starters
DATE AND TIME	Tuesday 24 November 3.00 pm
VENUE	Chancellor's Room, Treasury/ No. 11/Conference Room/House of Commons
PAPERS	FP to circulate
THOSE ATTENDING	CST Mr Unwin cc Sir G Lither FST Mr Knox Mr Allan PMG Ms French Mr Taylor EST Mr Jenkins - Party Counsel PS IRD Sir P. Middleton Mr Cassell Mr Scholar Mr Culpin Mr RIG Allen Ms Sinclair Mr Cropper Mr Tyrre Mr Cole Mr Isaac } +2. Mr Painter }

RESTRICTED



CHANCELLOR OF THE EXCHEQUER'S OFFICE: MEETING

SUBJECT	MINOR BUDGET STARTERS		
DATE AND TIME	TUESDAY 24 NOVEMBER		3.00 PM
VENUE	Chancellor's Room, Treasury/ Nov 11 Conference Room/ House of Commons		
PAPERS	TO BE CIRCULATED BY FP		
THOSE ATTENDING	CST FST PMG RST * Sir G. Lifford Mr Cassell Mr Scholar Miss Sinclair Mr Cropper Mr Tyme Mr Call	<u>Inland Revenue</u> Mr Isaac + 1 Mr Painter + 1 <u>Customs + Excise</u> Mr B Unwin + 3	cc Mr A Allan Mr J Taylor PS/IR

CHANCELLORS MEETING

51779, Teresa.

Burnhams

1. SUBJECT Number Starters

2. LOCATION. HMT.

CAST LIST	'PHONE NO'	DATE - TIME				
		17/11 4.30.	18/11 10/11/3.	19/11 3.00	20/11 10.15/11.15	
CST	5088 ✓					
PST	S103					
EST	S126 ✓					
PMG						
Crepper	S027 ✓					
Tynd	S025 ✓					
Coal	S107 ✓					
PEM	S158 ✓		Bain			
Surf	S409					
Cassell	S181					
Schoen	S264 ✓					
Surclar	4914 ✓					
PSIR*	2541 6386 ✓					
PSCE*	2913 5002 ✓					
Banc						
Parker						

* To bring 3 people each their choice.

PAPER

MTL NOTICE START :

CHANCELLORS MEETING

(B.F. To 1/10)

1. SUBJECT MINOR STARTS STARTS

2. LOCATION. HMT.

EST agreed to 27 also pl fax.
 ↓

	DATE + TIME						
CAST LIST	'PHONE NO'	27/10.	28/10	29/10			
CST.		3.00	3.00/4.00	4.00.			
EST		✓	✓	X?			
EST		✓					
PMG							
CRISPER							
TURIE							
CALL	5107	✓					
Pem		? Can cover ✓ vx. frequency.					
SIRGL	5409						
Cassell.	5181	✓					
Schebler	5264	✓					
Sunclair.	4914	✓					
PS11R *							
PS C+E *							

* TO BRING 3 PEOPLE EACH THEIR CHANCE.

PMERD EDWARDS → MUMS 15/9.

MTG NOTICE SHWT :

RESTRICTED

2411



CHANCELLOR OF THE EXCHEQUER'S OFFICE: MEETING

SUBJECT	MINOR BUDGET STARTERS	
DATE AND TIME	TUESDAY 24 NOVEMBER 3.00 PM	
VENUE	Chancellor's Room, Treasury / West Conference Room / House of Commons	
PAPERS	TO BE CIRCULATED BY FP	
THOSE ATTENDING	<p>CST <u>Inland Revenue</u></p> <p>FST Mr Isaac + 1</p> <p>PMG Mr Painter + 1</p> <p>RST <u>Customs + Excise</u></p> <p>Sir P Middleton Mr B Vinnin + 3</p> <p>* Sir G Lubbock (Please let me know if you will be attending on your return)</p> <p>Mr Cassell</p> <p>Mr Scholer</p> <p>Miss Sinclair</p> <p>Mr Cropper</p> <p>Mr Tume</p> <p>Mr Call</p>	<p>cc Mr A Allan</p> <p>Mr J Taylor</p> <p>PS/IR</p>

MINOR STARTERS

<u>NO.</u>	<u>TITLE</u>	<u>STATUS</u>	<u>DATE OF LATEST SUBMISSION</u>	<u>COMMENT</u>
2	Duty differential for unleaded petrol	NSM		Consultation ends 30/11/87
3	Def. of process of rendering wine or made-wine "sparkling"	I	4/11	EST agreed to include 20/11/87
4	Restructuring of wine and made-wine duties	I	4/11	EST agreed to include 20/11/87
5	Pool betting duty structure	NSM		Submission expected at end of month
6	Phased abolition of matches and mechanical lighters duties	NSM		NMC report awaited
7	Abolition of minimum duty charge for beer	I	4/11	EST agreed to include 20/11/87
8	Power to assess beer, wine and cider duties	D	4/11	EST agreed to drop 20/11/87
9	Remission of duty on spirits for medical or scientific use	I	4/11	EST agreed to include 20/11/87
10	Oil duties relief	UCM	20/11	
11	Relief from duty of goods testing	I	4/11	EST agreed to include 20/11/87
30	Keith	I		

I - definitely included; I* - provisionally included; D - definitely dropped; D* - provisionally dropped;
 UCM - under consideration (at least one submission received by Ministers); NSM - a first submission to go to Ministers.

31	Revalorisation of registration and deregistration thresholds	NSM		Preliminary leg. not requ.
32	Motor expenses	D	9/11	EST agreed to drop 20/11/87
33	Value of used goods	D		EST considers should be dropped 19/11/87
34	Tax on supply to be liability of person completing tax invoice	I		EST agreed inclusion 16/11/87
35	Amend. to VAT Act 1983 Sch. 1	I		EST agreed to drop 17/11/87
36	Computer evidence (Scotland)	D		EST agreed to drop 17/11/87
60	Disclosure of importers' details	NSM		Consultation with DTI progress unlikely until December
61	Search of persons	I	12/11	CX agreed inclusion
62	Penalty for Customs fraud	UCM	17/9	
63	Prosecution time limits	UCM	17/9	
64	CAP warehouses approval and controls	UCM	20/11	
110	Amend. to PRP leg	UCM/NSM	3/9	1 item drafted further sub. when reaction to new leg + IR Guidance Notes available
111	Review of S79 unapproved employee share scheme	I	22/7	Draft clauses published with consultative document
112	Employee priority shares in a public offer	I	5/11	Drafting completed. Announced in press notice on 23 September. But new proposal to widen exemption

116	FA 1984 Employee Share Option Schemes - restricted shares	I	5/10	Drafting completed
151	Personal pensions - delay in commencement date	I	13/11	Instructions sent to Counsel 21/10/87 but proposal to include some other minor changes
200	Close companies apportionment of interest	D*	5/11	FST does not regard this as essential for 88
203	Business Expansion Scheme	NSM		CX wished considered. Awaiting results of review submission expected at end of month
204	Capital Allowances: pre-consolidation amendments	NSM		Submission expected next week
205	Capital Allowances: transfers by exempt bodies	I	12/10	
206	Capital Allowances: fire safety etc	NSM		
208	Capital Allowances: enterprise zones	D	21/10	CX recommended dropping, 11/11
209	Capital Allowances: assured tenancies	NSM		Depends on outcome of review of tax. of private renting
210	Exchange gains and losses	NSM		
211	Abolition of relief for business entertaining of overseas customers	I	11/11	FST recommends inclusion
212	Small advertising gifts	D	11/11	FST recommends dropping
213	In-year assessment on Schedule D income	UCM	12/11	

214	Lloyds RIC Leavers	UCM	19/11	
215	Lloyds special Reserve Fund	UCM	17/11	
216	Lloyds: return of assessment and collection system	NSM		
217	Pension Scheme repayments	NSM		Awaiting ABl reps
251	IHT exemption for +T/Fs to political parties	I	30/10	FST agrees inst to Counsel
255	CGT: definition of investment trust	I	17/7	Drafting completed change announced in PG. 23/7/87
256	CGT: extension of roll-over relief to satellites and spacecraft	I		Drafting completed announced 27/7/87
257	CGT: Capital losses on building society and co-op shares	I	18/6	Drafting completed announced 3/7/87
258	CGT: indexation and groups	I*	12/10	Inst to Counsel 4/11/87
259	CGT: intra-group share exchanges	I*	21/9	FST provisionally approv. inclusion 23/9/87 Inst to Counsel 29/10/87
260	CGT: extensions of roll-over relief to milk and potato	I	23/9	FST approved inclusion 23/10/87 Relief announced 29/10/87
301	Stamp duty on shares	NSM		Submission by end November
302	Stamp duty: Channel Tunnel	I	21/9	FST approved inclusion 13/10/87 Inst. to Counsel 22/10/87
303	Abolition of Unit-Trust Instrument Duty	NSM		Submission by end November

350	PRT: Expenditure claims during safeguard periods	D	13/11	EST agreed to drop 30/11
351	PRT: Variations in assessments or determinations	D*	20/11	EST inclined to drop 19/11
352	PRT: Expenditure relief - tariffing arrangements	D	21/10	EST agreed to drop 26/10
353	Oil licence gains: work programme farm cuts	I*	20/8	EST agreed to provisional inclusion 2/11
400	Company residence and migration	USM	19/11	Case unlikely to come before European Court of Justice before Budget. Chance of success not good so pre-emptive leg. recommended
450	Tax appeals: General Commissioners for N.Ireland	I*	14/7	Views of consultative doc. requested by 20/11/87 Final decisions late December
451	Tax appeals: place of hearing by Gen. Commissioners	UCM	20/10	Consultative document issued 5/11/87 comments requested by 31/12/87
452	Keith Ctee: administrative improvements	I	15/7	
650	Public Accts + Charges Act 1891: tech amend to Sect 2(3)	UCM	17/11	
651	Gilts: redemption procedure	UCM	20/11	
652	Gilts: Small Estates	UCM	20/11	

BUDGET STARTER: REFERENCE SHEET
TITLE: EXCISE:DUTY RATES

STARTER NUMBER: 1

CLASSIFICATION: A

Revenue £m*		(Full year)	Staff effect*		Length of legislation
cost(-)/yield(+)			1/4/89	1/4/90	
1988/89	1989/90				
+590	+1425		Nil	Nil	2 pages plus 12 pages of schedule

Minister in lead	Date instructions sent to Counsel	PCTA or equivalent resolution required
Chancellor		Yes. Up to 8 separate resolutions

ORIGIN OF STARTER: Customs. (Treasury for Vehicle Excise Duty (VED))

BACKGROUND AND COMMENTS:

Revenue yield is based on revalorisation of all specific excise duties (including VED) by 4.0 per cent, the inflation rate assumed for the 12 months prior to December 1987. The 1989-90 yield is based on a further revalorisation of 4.75 percent.

The official Treasury (FP) has policy responsibility for VED. Of the estimated length of legislation, 1 page plus 11 pages of schedule are attributable to VED.

A submission on the excise duty rates will be made before Christmas.

OFFICIAL IN LEAD: P R H ALLEN

TELEPHONE 2913 5023

OFFICIAL IN SUPPORT: MS A FRENCH

TELEPHONE 2913 5059

FP CONTACT: R G MICHIE

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.

C O N F I D E N T I A L

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
1	Duty rates	NSM	-	+590	+1425	Nil	Nil	2 pages and 12 pages of schedules		1988-89 revenue yield is based on revalorisation of 4%. 1989-90 yield assumes a further revalorisation of 4.75%.
2	Duty differential for unleaded petrol	NSM	-	Variable		Nil	Nil	5 lines		Revenue cost of £0.6M per 1p tax differential for every percentage point of unleaded petrol market share
3	Definition of process of rendering wine or made-wine "sparkling"	UCM	4.11.87	Nil	Nil	Nil	Nil	10 lines		
4	Restructuring of wine and made-wine duties	UCM	4.11.87	Neg	Neg	Nil	Nil	2 pages		
5	Pool betting duty structure	NSM	-	Neg	Neg	Nil	Nil	31 lines		

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CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

									Date	20 November 1987
									10	11
1	2	3	4	5	6	7	8	9		
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
6	Phased abolition of matches and mechanical lighters duties	NSM	-	-6	-12	Nil	-9	10 lines		
7	Abolition of minimum duty charge for beer	UCM	4.11.87	Neg	Neg	Nil	Nil	20 lines		
8	Power to assess beer, wine and cider duties	UCM	4.11.87	Neg	Neg	Nil	Nil	5 lines		
9	Remission of duty on spirits for medical or scientific use	UCM	4.11.87	Nil	Nil	Neg	Neg	15 lines		
10	Oil duties relief	UCM	20.11.87	Nil	Nil	Nil	Nil	23 lines		
11	Relief from duty of goods for testing	UCM	4.11.87	Nil	Nil	Nil	Nil	10 lines		

BF 22/11

1 Jonathan
2 Julie



Chair IR will not be attending
two Dep Chair in his place +
another two (Names to be given
later).

Chair of CoE will attend +
three others (Names to be given
later).

Sir G Kettler is not confirmed
as coming but he will app-
arently be in HM Treasury at that
time. I will ring when
Ellen gets back from leave. 2/11



FN IN OR STRATEGY
~~18 Oct~~

~~Shape of minor
states list~~

Meet w/ed
Kojan 26 Oct.
(preferably early).

All Minutes
All advisors. Sir G
PEM, Cassell,
Scholar, Sindar
3 from Revenue, 3 from letters

C O N F I D E N T I A L

CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

Date 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m cost(-)/Yield(+)		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
30	Keith review	I	9.10.87	Neg	Neg	Nil	Nil	4-5 pages		Revenue cost of £5M in full year after 1990-91
31	Revalorisation of registration and deregistration thresholds	NSM	-	Neg	Neg	Nil	Nil	None	Not applicable	
32	Motor expenses	D*	9.11.87	Neg	Neg	Nil	Nil	5-10 lines		
33	Value of used goods	D	18.11.87	Nil	Nil	Nil	Nil	6-7 lines		
34	Tax on supply to be liability of person completing the tax invoice	I	13.11.87	+5	+5	Nil	Nil	5 lines		Revenue yield likely to increase if loophole becomes more widely exploited
35	Amendments to VAT Act 1983 Schedule 1	I	2.11.87.	Neg	Neg	Nil	Nil	10 lines		
36	Computer evidence (Scotland)	D	3.11.87.	Nil	Nil	Nil	Nil	1 line		

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CUSTOMS AND EXCISE BUDGET STARTERS: SUMMARY SHEETS

									Date 20 November 1987	
1	2	3	4	5	6	7	8	9	10	11
No.	Description	Status	Date latest subm	Revenue £m		Staff Effect		Legislation Length	Date Inst. sent to Counsel	Other Comments
				cost(-)/Yield(+) 1988/89	1989/90	1/4/89	1/4/90			
60	Disclosure of importers' details	NSM	-	Neg	Neg	Neg	Neg	1 page		
61	Search of persons	I	12.11.87.	Nil	Nil	Nil	Nil	35 lines		
62	Penalty for customs fraud	UCM	17.9.87.	Nil	Nil	Nil	Nil	12 lines		
63	Prosecution time limits	UCM	17.9.87.	Neg	Neg	Neg	Neg	6 lines		
64	CAP warehouse approval and control	UCM	20.11.87	Nil	Nil	Nil	Nil	12 lines		

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+)						
				1988/89	1989/90	1/4/89	1/4/90			
100	Income tax: allowances, thresholds & rates	UCM	14.7.87	Depends on decisions	Depends on decisions			2/3		Cost of 3.7% indexation of thresholds (£1060m in a full year) included in forecast.
101	Independent taxation of husband & wife	UCM	16.9.87	Nil	Nil	+110	+770	25	3.11.87 (part)	Implementation in 1990/91. Full year cost £700m.
102	Additional personal allowance: conversion to social security provision.	UCM	3.9.87	Depends on decisions	Depends on decisions			1/4		
103	Minor personal allowances - abolition	I	9.10.87	+10		-75	-100			A few lines
104	Benefits in kind - misc.	UCM	20.10.87	Depends on decisions	Depends on decisions					Depends on decisions

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
105	Benefits in kind - threshold	UCM	16.7.87	Depends on decisions	Depends on decisions			1/4		Cost & manpower effects depend on level of threshold and whether or not it includes car car fuel benefits.
106	Benefits in kind - car & car fuel benefits	I	22.10.37	Depends on decisions	Depends on decisions			Possibly up to 1/2		Changes to scale charges made by Treasury Order, but legislation may be necessary if changes to structure of car benefit scale to be made.
107	Benefits in kind - third party entertainment	I	16.7.87	Neg (-)	Neg (-)	Nil	Nil	6 (approx)	18.11.87	Exemption announced by FST on 25.9.87.

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 198

1	2	3	4	5	6	7	8	9	10	11	
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments	
				cost(-)/yield(+)							
				1988/89	1989/90	1/4/89	1/4/90				
108	Benefits in kind - car parking	UCM	30.7.87	Depends on decisions		Depends on decisions		1/2 - 1		Estimates of cost, manpower & length of legn will need to be altered if car parking only partially exempted. Estimate of cost & manpower take into account that very little of charge is currently collected.	
109	Benefits in kind - luncheon vouchers	NSM		Estimates not yet available							It is not certain that legislation would be required.

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest subm	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
110	Amendments to PRP legislation	UCM/ NSM	3.9.87	Not known (probably negligible cost and manpower effect).					22.9.87 19.10.87 (part)	Ministers have approved drafting one item. Submissions on others will be made as soon as possible, when early reactions to the new legislation and Revenue's recent Guidance Notes can be assessed.
111	Review of S79 Unapproved employee share schemes.	I	22.7.87	Neg		Neg		5	4.9.87	Draft clauses published 26.10.87.
112	Employee priority shares in a public offer.	I	18.9.87	Neg		Neg		1/2	Drafted	

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				cost(-)/yield(+) 1988/89	1989/90	1/4/89	1/4/90			
				<u>Limit £30,000</u>						
113	Mortgage Interest Relief Limit for 1988-89	UCM	23.9.87	Nil	Nil	Nil	Nil			Few lines
				<u>Limit £35,000</u>						
				-230	-320	-12	-10			
				<u>Limit £40,000</u>						
				-400	-550	-25	-20			
114	Mortgage Interest Relief: Residence Basis	UCM	23.9.87	<u>Limit £30,000</u>						
				April 1988 start						2 or 3
				+10	+30	+25-30	+25-30			
				August 1988 start						
				+3	+20	+25-30	+25-30			
				<u>Limit £35,000</u>						
				April 1988 start						
				-220	-290	+25-30	+25-30			
				<u>Alternative approach</u>						
				April 1988 start						
				-260	-285	+25-30	+25-30			

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation Length	Date inst. sent to Counsel	Other comments
				1988/89	1989/90	1/4/89	1/4/90			
115	Mortgage interest relief: restriction of relief for home improvements	UCM	27.10.87	+100	+250	-150	-200	1		
116	FA 1984 Employee Share Option Schemes: Restricted Shares	I	5.10.87	Neg		Neg		8 lines	Drafted	
150	Maintenance payments and covenants.	UCM	13.11.87	Depends on decisions		Depends on decisions		Depends on decisions		
151	Personal pensions - delay in commencement date.	I	24.8.87	+10	+10	To be assessed		1	21.10.87	
200	Close companies - apportionment of interest	D	5.11.87	Neg	Neg	Neg	Neg	--		
201	CT rate for FY 1988	NSM		+10	+350	Nil	Nil	2 lines		

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submt	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
202	Small companies rate of CT for FY 1988	NSM		Neg	+25	Nil	Nil	4-9 lines		
203	BES	NSM		N/K		N/K		N/K		
204	Capital allowances: pre-consolidation amendments	NSM		Depends on decisions but should be very small.		Negligible		say 6-10		
205	Capital allowances: transfers by exempt bodies.	I	12.10.87	Nil	Nil	Negligible		1/2		Potential revenue saving long-term, say, £540m (net present value).
206	Capital allowances: fire safety etc	NSM		Depends on decisions		Negligible		Up to 1/2		
208	Capital allowances: enterprise zones	D	21.10.87	Depends on decisions		Negligible		-	--	

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub ^{mm}	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1988/89	1989/90	1/4/89	1/4/90			
209	Capital allowances: assured tenancies	NSM		Depends on decisions		Negligible		Depends on decisions		Depends on developments in Housing Policy.
210	Exchange gains and losses	NSM		Depends on decisions		Negligible		say 20		Submission to Treasury Ministers by end-October 1987
211	Abolition of relief for business entertaining of overseas customers	UCM	11.11.87	N/K	N/K	Negligible saving		say 1/2		
212	Small advertising gifts	UCM	11.11.87	Increase to:		Negligible saving		Few lines		
				£15	Nil	-3				
				£20	Nil	-4				
				£25	Nil	-5				

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1988/89	1989/90	1/4/89	1/4/90			
213	In-year assessment on Schedule D income	JCM	12.11.87	+60 to 70		Saving of at least 40		say 1/2		This starter would avoid what would otherwise be a once and for all revenue cost of fm60-70 and a continuing staff cost of at least 40, if the Courts uphold the Special Commissioners decision.
214	Lloyd's RIC leavers	UCM	19.11.87	Probably negligible		Probably small		3/4		Cost and staff effects depend on details of relief.
215	Lloyd's Special Reserve Fund (SRF)	UCM	17.11.87	Neg	-3 to -20	Neg	Nil to + or - 10	Up to 1		Cost, staff effects and length of legislation all dependent on nature of change - for discussion with Lloyd's.

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest submn	Revenue fm cost(-)/yield(+)		Staff Effect		Legislation		
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	Other comments
216	Lloyd's - reform of assessment and collection system.	NSM		Neg	Neg	Neg	-20 to -50	Up to 2		Staffing effects and length of legislation dependent on details of changes - for discussion with Lloyd's.
217	Pension fund repayments	NSM			[-100]		Nil	1/2		
250	IHT - rates and bands	NSM		-25	-60		Indexation alone will add to staff needs (increase of 20% in caseload)	1/2		Costs reflect effect of automatic indexation and are already assumed in the forecast.
251	IHT - exemption for transfers to political parties	I	9.11.87	Nil	Nil	Nil	Nil	1/2		
252	CGT: main proposal	UCM	1.7.87	Nil	Neg	Nil	Nil	25	6.8.87 21.10.87 30.10.87 (part)	

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

No	Description	Status	Date latest submn	Revenue fm		Staff Effect		Legislation		Other comments
				cost(-)/yield(+)				Length	Date inst. sent to Counsel	
				1988/89	1989/90	1/4/89	1/4/90			
253	CGT - husband and wife	I*	6.8.87	Nil	Nil	Nil	Nil	1/4	Drafted	Full year cost -£90m.
254	CGT - annual exempt amount	I		Nil	Nil	Nil	+15	Few lines	18.11.87	
255	CGT - definition of an investment trust.	I	17.7.87	Nil	Nil	Nil	Nil	1	Drafted	
256	CGT - extension of rollover relief to satellites and spacecraft	I	24.7.87		Yield effect fluctuates from year to year - in some years nil, in others could be several million.	Neg	Neg	11 lines	Drafted	
257	CGT - capital losses on building society and co-operative shares.	I	18.6.87		Impossible to quantify. Revenue at risk if no action taken.	Neg	Neg	1/3	Drafted	
258	CGT - indexation and groups.	I*	12.10.87		Substantial revenue at risk if no action taken.	Neg	Neg	Depends on decisions. Could be up to 2 pages.	4.11.87	

BUDGET STARTERS: SUMMARY SHEETS
INLAND REVENUE

Date: 20 November 1987

1 No	2 Description	3 Status	4 Date latest submn	5 Revenue fm cost(-)/yield(+)		7 Staff Effect		9 Legislation		11 Other comments
				1988/89	1989/90	1/4/89	1/4/90	Length	Date inst. sent to Counsel	
259	CGT - intra-group share exchanges	I*	21.9.87	Legislation is to prevent, for the future, both avoidance of tax and, in other cases, the charging of gains twice.		Nil	Nil	Up to 1/3	29.10.87	
260	CGT: milk and potato quota	I	23.9.87	Neg	-5 or less	Neg	Neg	1/2		Relief announced 29.10.87.
300	Stamp duty threshold:	UCM	10.11.87							
	(a) £30,000			Nil	Nil	+10	+10	Nil		
	(b) £40,000			-270	-360	-10	-10	1/3		
	(c) £50,000			-420	-580	-20	-20	1/3		
301	Stamp duty on shares	NSM		-480	-480	Nil	Nil	1/5		
302	Stamp duty - Channel Tunnel	I	21.9.87	Neg	Neg	Neg	Neg	1/3	22.10.87	
303	Abolition of Unit Trust Instrument Duty	NSM		-30	-30	Neg	Neg	1/3		Capital duty will also need to be considered

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BUDGET STARTERS: SUMMARY SHEETS

DEPARTMENT OF TRANSPORT

										<u>Date October 1987</u>	
1	2	3	4	5	6	7	8	9	10	11	
No	Description	Status	Date latest sub mn	Revenue £m		Staff Effect		Legislation Length	Date inst sent to Counsel	Other Comments	
				Cost(-)/Yield(+) 1988/89	1989/90	1/4/89	1/4/90				
	eligible for restricted HGV rate of VED			-£0.3m	-£0.3m	Nil		3-4 lines			
633	Change in criterion for concessionary rate for vehicles 'registered' pre 1.1.47 to manufactured pre 1.1.47	NSM		small		-	-	6-8 lines			
634	Ambulance and new welfare vehicle taxation classes	NSM		Neg Cost		Nil	Nil	1 page +4 lines			

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BUDGET STARTERS: SUMMARY SHEETS

TREASURY

									Date October 1987	
1	2	3	4	5	6	7	8	9	10	11
No	Description	Status	Date latest sub mn	Revenue fm Cost(-)/Yield(+)		Staff Effect		Legislation Length	Date inst sent to Counsel	Other Comments
				1988/89	1989/90	1/4/89	1/4/90			
650	Public Accounts & Charges Act 1891: technical amendment to Section 2(3)	UCM	-	Neg	Neg	Neg	Neg	Say 5-10 lines		Administrative simplification and avoiding illegality of present Treasury practice
651	GILTS REDEMPTION PROCEDURES	UCM	20/11	Neg	Neg	Nil	Nil	1-2 pages		simplification of procedures for repaying gilts redemption moneys. Minor staff savings at Bank.
652	GILTS: SMALL ESTATES	UCM	20/11	Neg	Neg	Nil	Nil	1-2 pages		



FROM: J J HEYWOOD
DATE: 18 November 1987

MR SPENCE IR

cc PS/Chancellor
Mr Scholar
Mrs Lomax
Mr Wiseman
Mr Cropper
PS/IR

FINANCIAL SECRETARY'S LUNCH WITH LLOYD'S

The Financial Secretary was most grateful for the briefing you and Mr Wiseman provided for this lunch. He will give you his views on Starter 215 (your minute of 17 November) in due course.

2. At lunch there was a short discussion about the Special Reserve Fund. The Financial Secretary said that he felt that the onus was on Lloyd's to argue their case. But his understanding was that the main inequity - in Lloyd's eyes - was the difference between the 60% higher rate faced by some Lloyd's members and the corporation tax rate of 35%.

3. Mr Lord said that the inequity was in fact between 60% and 27% (the small companies rate) since Lloyd's members were small traders and if they were allowed to incorporate their corporate tax rate would be 27%.

4. The Financial Secretary said that he found it curious that Lloyd's were drawing an analogy between themselves and corporate insurers. This had not been a welcome analogy in the context of the RIC legislation.

5. Mr Lord said that whereas the RIC legislation concerned the syndicates at Lloyd's, the Special Reserve Fund was a matter concerning individual members. Paradoxically the Lloyd's member was more analogous to a company than was the Lloyd's syndicate.

6. Mr Lord said that he would be meeting Mr Painter on 20 November to cover this area in more detail.

7 Most of the remainder of the discussion at lunch was taken up with various Lloyd's agents and members reviewing the general state of business in the marine, non-marine, aviation and motor areas. All reported that there were problems on the horizon due to world-wide competition.

8. The following further points were made:

- (i) Relations between Lloyd's and the Revenue (and DTI) were very good. (Relations with the Revenue having much improved since the RIC legislation discussions
- (ii) Lloyd's accepted responsibility for the slow start to the "dry-run exercise" on RIC of the 1985 Account.
- (iii) Mr Lord said in passing that the early leavers issue was a "fringe problem".
- (iv) Peter Miller expressed thanks for the Government's high level support on the US tax problem. Mr Lord said that the main difficulty was the ignorance in the US of Lloyd's accounting procedures. The need now was for pressure to be brought to bear on Congress. But it was recognised that the UK Government had done all it could at this stage.
- (v) The forthcoming Second EEC Directive on Motor Insurance would result in much higher premia.

9.11

J J HEYWOOD



M

FROM: MISS S J FEEST
DATE: 25 November 1987

R B WILLS IR

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Peter Middleton
Mr Cassell
Mr Scholar
Mrs Lomax
Miss Sinclair
Mr C J Riley
Mr Neilson
Mr Tyrie
Mr Cropper
Mr Jenkins OPC
Mrs Jackson BoE
PS/IR

STAMP DUTY: RATE OF DUTY ON SHARES STARTER 301

The Financial Secretary was very grateful for your minute of 23 November.

2. However, the Financial Secretary does not feel that a reduction should be made in this year's budget.

SUSAN FEEST
(Assistant Private Secretary)