PO-CH/NK/0751 PART A

2/2

[3x]

14 March 1989

ADVANCE CORPORATION TAX

The Chancellor proposes in his Budget to amend the advance corporation tax rules. The changes will

- make it easier for groups of companies to reorganise, but

- strengthen the safeguards against tax avoidance.

DETAILS

1. The main features are:

Group reorganisations

2. A company which pays advance corporation tax (ACT) can surrender it to a subsidiary company to be set against its liability to corporation tax (CT). If the subsidiary company cannot immediately use all of the surrendered ACT it is carried forward to be set against its future CT liabilities. But if the company ceases to be a subsidiary of the other company, any unused balance of the surrendered ACT cannot be carried forward beyond that point (and so will be lost). The purpose of this rule is to prevent a company selling ACT by surrendering it to a subsidiary and then selling the shares in the subsidiary.

3. However, the rule also deters commercially desirable group reorganisations under which one company may cease to be a subsidiary of another although both will remain under the ownership of a third company. The rule will be amended to allow surrendered ACT to be carried forward in these circumstances.

Change of ownership of a company

4. Where a company has paid ACT, the ACT is lost if

- the ownership of the company changes, and

/- there is either

- there is <u>either</u> a major change in the company's business within 3 years, <u>or</u>

- the company becomes largely dormant before the change of ownership.

This provision prevents a company with unused ACT being sold to another company which would transfer its existing profitable activities to the purchased company to make use of ACT. A similar provision applies where there are unused trading losses.

5. The rules for determining whether there has been a change of ownership are the same for ACT and trading losses (Section 769 of the Income and Corporation Taxes Act 1988). Two of these rules do not always work satisfactorily. These will be amended.

6. The first is in subsection (5). This disregards a change of ownership if before and after the change the company is a "75 per cent subsidiary" of another company. This is intended to prevent the loss of ACT or trading losses where there is a group reorganisation under which the ultimate ownership of the company does not change. But the definition takes account only of the ownership of the company's ordinary share capital and this does not always reflect the economic ownership of the company. The definition will be changed to ensure that a company will be treated as being a 75 per cent subsidiary of another company only if that company is entitled to at least 75 per cent of its profits and to 75 per cent of its assets if it is wound up. The detailed rules will be based on the rules that already apply for group relief (Schedule 18 of the Income and Corporation Taxes Act 1988).

7. The second rule that does not always work satisfactorily is in subsection (6). This says that if there is a change of ownership of a company any 75 per cent subsidiary of that company should also be treated as having had a change of ownership. This rule reflects the fact that the ultimate ownership of the subsidiary will have altered even though its direct ownership is unchanged. But the rule has no effect on a company which is not a 75 per cent subsidiary. For example, the parent company may own 70 per cent of the shares and another company in the group may own the remaining 30 per cent. The shares in the parent company may be sold to another company together with the 30 per cent shareholding. The purchaser will therefore directly or indirectly own all the shares of the subsidiary company. But under the existing rules, that company is not treated as having had a change of ownership. In order to reflect more closely the realities of ownership, subsection (6) will be amended so that when there is a change of ownership of a company any shares (or rights or powers) possessed by the company will be treated as having changed ownership.

8. One further change will be made to the provision concerning the loss of ACT where there is a change of ownership. It will apply where a company surrenders ACT to a subsidiary and both companies pass into the same new ownership (for example, the

/parent company may be

parent company may be sold to another company and the provision described in the previous paragraph will cause there to be a change of ownership of the subsidiary). In future, if within three years of the change of ownership there is a major change in the business of the company which surrendered the ACT this will prevent the subsidiary making use of the surrendered ACT after the change of ownership. In other words, if the ACT would have been lost if it had not been surrendered then it will be lost even if there has not been a major change in the business of the company to which it has been surrendered. The purpose of this is to prevent the indirect sale of ACT by surrendering it to a subsidiary which has been set up to carry on activities which would fit into the business of the purchaser.

Dividends and interest paid between members of a group

9. A parent and subsidiary may elect that any dividend paid by the latter to the former should not be liable to ACT. The companies may also elect that any interest paid from one to the other may be paid without deducting income tax. (Similar elections can be made by a company owned by a consortium and a member of the consortium.) These provisions allow a group of companies (or a consortium) to conduct its internal affairs without encountering unnecessary tax obstacles.

10. The provisions work satisfactorily where the companies concerned are in a genuine group (or consortium) relationship. But the test of ownership of one company by another (or by a consortium) operates by reference to the ownership of the ordinary share capital. This does not always reflect economic ownership. So it is possible to devise arrangements under which one company avoids paying ACT on a dividend payable to another company which is in reality under separate ownership.

11. The test of ownership of a company by another company will be amended in a similar way to that described in paragraph 6 above. The test of ownership by a consortium will also be brought closer to the test which applies for group relief. Under the test (in Section 402(3) of the Income and Corporation Taxes Act 1988) group relief is not available if the company owned by the consortium is a 75 per cent subsidiary of any company - in other words, it is really a subsidiary of a single company rather than being owned collectively by the members of a consortium. A similar exclusion will apply for this relief.

Interest on overdue tax

12. A company can surrender ACT to another company at any time within six years of the end of the accounting period in which the ACT was paid. Where ACT is surrendered and set against a subsidiary's CT liability it will receive a tax repayment if it has already paid its CT liability. This repayment may carry a repayment supplement.

13. The company which surrenders the ACT will of course lose the use of it. If the ACT has already been set against its own CT liability the CT liability will increase as a result of the

/surrender and so the

surrender and so the company may have to pay more tax. But unless the CT liability is under appeal when the claim to surrender ACT is made the increased CT liability will bear interest only from 30 days after it is assessed.

14. The combined effect of these provisions allows a parent and subsidiary to gain an unjustified advantage by making an ACT surrender, which results in no change to their total tax liabilities, but produces a net payment to the subsidiary of e repayment supplment.

15. This advantage will be removed by charging interest on the corresponding increased CT liability of the parent. Interest will also be charged where the increased CT liability is offset by a carry-back of surplus ACT from a later accounting period. (This is consistent with the existing provision in Section 825(4) of the Income and Corporation Taxes Act 1988 which prevents repayment supplement being paid on a repayment of CT arising out of a carry-back of ACT).

17. The new provision will apply until the new arrangements for CT Pay and File come into force (not before 31 March 1992). This tax advantage cannot arise under CT Pay and File.

Commencement

18. The changes will come into force as follows.

(i) Group reorganisations - Accounting periods ending after 14 March 1989.

(ii) Change of ownership - Changes of ownership occurring after 14 March 1989.

(iii) Payments between members of a group - Dividends or interest received after 14 March 1989.

(iv) Interest on overdue tax - Surrender claims made after 14 March 1989.

NOTES FOR EDITORS

1. ACT is normally payable when a company pays a dividend or distributes its profits in some other way. The rate of ACT is linked to the basic rate of income tax.

2. The ACT payable on dividends or other distributions paid during a company's accounting period is set against its CT liability on the profits of that period (subject to certain restrictions). Any ACT which cannot be set off in this way can be carried forward to set against future CT liabilities.

/Alternatively, it can

Alternatively, it can be carried back for up to six years and set against the company's CT liabilities for earlier accounting periods.

3. A company may claim to surrender some or all of its ACT to a subsidiary company to be set against its CT liability. A company can surrender ACT even if it could otherwise have set the ACT against its own CT liability.

DRAFT

[3x] 14 March 1989

BUSINESS EXPANSION SCHEME

The Chancellor proposes in his Budget to stop tax relief for interest payments on loans raised to buy shares under the Business Expansion Scheme.

[It has previously been possible for an individual to get tax relief on both the investment and the interest on the loan raised to pay for it. But this has only recently begun to happen on a large scale.]The Chancellor considers that two sets of relief are excessive.

The change will apply to shares issued on or after today.

NOTES FOR EDITORS

[1. In the last six months tens of £millions have been invested in BES shares financed by loans which attract interest relief.]

General description of the BES

2. The Business Expansion Scheme (BES), which was introduced in the Finance Act 1983, offers income tax relief at the marginal rate to individuals investing up to £40,000 per year in new, full-risk, equity of unquoted UK companies with which the investor is not otherwise connected. The company must not be under the control of any other company. It must exist either for the purpose of carrying on a trade or for the purpose

of letting residential property on new-style assured tenancy terms. Originally set to run until April 1987, the life of the Scheme was extended indefinitely by the Finance Act 1986, when among other changes BES shares issued after 18 March 1986 were exempted from capital gains tax.

3. BES is for outside investors, rather than for people putting money into their own business. An investor does not qualify if he or she (together with his or her close relatives, business partners and certain other "associates") has more than 30 per cent of the shares or the voting power in the company. And the investor must not be a paid director or an employee of the company. But the investor may be an unpaid director, and may receive fees for professional and similar services to the company other than as a director or employee.

4. The investment must be in new ordinary shares which have no special rights. The shares must be held for at least five years to ensure that full tax relief is retained. If the shares are disposed of earlier, some or all of the relief may be withdrawn.

5. An individual does not qualify for relief if he or she comes to a mutual agreement with someone else to invest in each other's companies. And there is a general provision preventing relief being given unless the share issue is for bona fide commercial purposes and is not part of an arrangement meant to avoid tax.

Interest relief for purchasing shares in a close company

6. Subject to certain conditions, an individual can obtain tax relief on the interest paid on loans to acquire shares in a closely-controlled company. At present, this relief is available even if the shares qualify for tax relief under the BES.

DRAFT

INLAND REVENUE
Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
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[3x]

14 March 1989

CAPITAL ALLOWANCES

The Chancellor proposes in his Budget certain minor changes to the capital allowance rules. These changes will correct defects and anomalies in advance of consolidation of the capital allowance legislation into a single Act. They will also extend the existing relief for safety expenditure on certain sports grounds to regulated stands at what are known as undesignated grounds.

The necessary provisions will be included in the Finance Bill 1989.

DETAILS OF THE PROPOSALS

1. Pre-consolidation changes

(a) Exclusion of double allowances

The principal change proposed is the replacement of the various existing rules with a simple rule allowing a claimant whose expenditure qualifies under more than one head of the capital allowance code to make an irrevocable choice of the type of capital allowance he prefers.

(b) Contributions to expenditure

The existing rules which govern the treatment for capital allowance purposes of contributions made towards another person's capital expenditure are to be amended. The main effects will be to

i. allow relief for contributions where the contributor or the recipient is engaged in a profession or vocation (at present, a contributor can only claim allowances where a contribution of capital is made for the purpose of a trade carried on by him or his tenant);

/ii. confine the

ii. confine the relief due to the recipient of a contribution to his net expenditure where the contributor can claim the contribution as a trading expense or is exempt from tax.

(c) Patent Rights

It is proposed to adapt the rules which limit the amount of a person's capital expenditure when he acquires patent rights from a connected person to deal with the situation where no disposal value is brought to account by the vendor.

The effect of the changes will be that, where the vendor receives a capital sum on which he is chargeable to tax, that sum will be taken as the purchaser's qualifying expenditure. In any other case, the qualifying expenditure will be the smallest of

i. the purchaser's capital expenditure

ii. the market value of the rights when the purchaser acquired them

iii. where capital expenditure was incurred by the vendor, or a person connected with him, on acquiring the rights, the amount of that expenditure.

(d) Other changes

It is proposed to provide statutory cover for a range of extra-statutory concessions and practices.

A number of other minor changes are also proposed, designed to provide a simpler and more cohesive capital allowance code in advance of consolidation of the capital allowances legislation and to facilitate the task of consolidation.

2. Safety at Sports Grounds

The rules governing capital allowances for safety expenditure at sports grounds are to be extended to take account of changes to the Safety of Sports Grounds Act 1975. They will provide relief for safety expenditure on regulated stands at undesignated sports grounds. This relief will apply to expenditure incurred on and after 1 January 1989 in complying with safety certificate requirements of a local authority.

Exchequer effect

The Exchequer effect of the proposed changes will be negligible.

/NOTES FOR EDITORS

NOTES FOR EDITORS

1. Pre-consolidation amendments

Consolidation of statute law is the responsibility of the Law Commission. Capital allowance legislation was last consolidated in 1968 since when extensive changes to the system have been made in annual Finance Acts. A Consolidation Bill to bring together all the current legislation on capital allowances is expected to be introduced later this year.

2. A consolidating Act does not involve any change in the law; but amendments necessary to tidy up the legislation and so facilitate consolidation may be included in a Finance Act. The capital allowance changes now proposed fall into two main categories. In the first there will be a number of minor changes to close gaps and correct anomalies in existing legislation while also providing cover for a range of existing extra-statutory concessions and practices in the taxpayer's favour. The second will consist of changes to facilitate the consolidation itself.

3. Safety at Sports Grounds

Section 49 Finance (No.2) Act 1975 (as extended by Section 40 Finance Act 1978 and Section 93 Finance Act 1988) provides that, if relief is not otherwise available, a trader may claim capital allowances at 25 per cent (reducing balance basis) on capital expenditure incurred in complying with safety certification requirements for designated sports grounds under the provisions of the Safety of Sports Grounds Act 1975, as amended.

The Fire Safety and Safety at Places of Sports Act 1987 Act provided that safety certification procedures should also apply to "regulated stands" (normally, stands which provide covered accommodation for 500 or more spectators) at undesignated sports grounds. That change came into effect on 1 January 1989.

The existing capital allowance rules are to be extended so that the relief will apply to capital expenditure on safety work on a regulated stand.

TEXT SUBMITTED 22 FEB FOR APPROVAL (BY MR KEITH)

[3X] 14 March 1989

FOREIGN EXCHANGE GAINS AND LOSSES-CONSULTATION ON TAX TREATMENT

The Chancellor has approved publication of a consultative document on the tax treatment of foreign exchange gains and losses.

Increasingly, business is conducted across national boundaries, so that many UK companies are exposed to currency fluctuations. Most of the foreign exchange gains and losses arising from these fluctuations are already taken into account for tax purposes, but significant problems remain in certain areas, particularly in the treatment of borrowings of a capital nature.

The Government recognise the importance which industry and its advisers attach to the need for change in this complex area of the business tax system. The consultative document examines the scope for comprehensive legislative reform, and also identifies a number of individual areas where business has found particular difficulty. In each case the document identifies in some detail options for change, and the practical implications that these would seem likely to entail.

The Government have published this document as a detailed response to the calls for change. The Government would welcome further comment on the practical implications of the options discussed in the document, and on how the particular problems which have been identified might best be approached.

Copies of the document may be obtained by calling at or writing to the Inland Revenue Reference Room, Room 8 New Wing, Somerset House, Strand, London WC2R 1LB. The cost of the document is £4.50 (including postage). Payment should be made by cheque or postal order (payable to "Inland Revenue") or in cash. Postage stamps cannot be accepted in payment.

Representations are invited on the matters discussed in the document, if possible to be received by 30 September 1989. They should be sent to:

The Board of Inland Revenue
Exchange Consultation
Room 69 New Wing
Somerset House
London
WC2R 1LB

/SUMMARY OF DOCUMENT

SUMMARY OF DOCUMENT

Present Tax Treatment

1. Under the present UK tax system, gains and losses resulting from currency fluctuations are not always taken into account for tax purposes in the same way, or even at all. For example, some may be treated as trading profits or losses, and some as capital gains or losses, while others fall outside the tax system altogether so that gains are neither taxed nor losses relieved.

2. This leads to difficulties, in particular:

- the absence of relief for exchange losses on capital borrowings (although, as a corollary, gains are not taxed);

- the hedging of currency exposures may be made ineffective because the hedge is treated differently from the underlying transaction;

- changes in the sterling value of foreign currency denominated share capital are not taken into account for tax purposes.

Main Options

3. The document considers how these problems might best be tackled for the corporate sector within the broad framework of the existing tax system.

4. It considers:

- when exchange differences should be taxed or relieved - perhaps when a transaction is settled by cash payment; or when assets and liabilities are translated into sterling in the annual accounts; or some combination of these;

- how they should be recognised - perhaps as part of the trading profit or loss; or as capital gains or losses; or under new rules within the income tax system.

5. It also considers the kind of rules which would be needed to protect the Exchequer against potentially very high costs from:

- relief for exchange losses which in commercial terms are matched by corresponding untaxed gains so that there is no overall gain or loss within the company or group;

- repayment and renewal of foreign currency loans to crystallise accrued exchange losses while deferring accruing exchange gains;

/. exploitation of timing

- exploitation of timing and other differences on intra-group transactions, especially within multinationals.

6. These problems may be especially difficult to solve because of the complex financing arrangements used by large companies and groups in the normal course of their business. For example, it may not be easy to draft clear and objective rules to establish whether a particular loss is in fact linked with a gain which may have been made elsewhere in the group; or whether a new loan can be said to replace another which has been repaid.

7. If an acceptable basis for comprehensive reform cannot be found, it may be possible to make important but more limited changes to deal with specific problems, for example, the need for symmetrical tax treatment of a hedge or exchange differences on share capital denominated in foreign currency. The document discusses some possible alternative approaches to these problems.

NOTES FOR EDITORS

1. Current Inland Revenue practice on the tax treatment of foreign exchange gains and losses is set out in Statement of Practice SP1/87. When this Statement of Practice was published, the Financial Secretary said:

> "We have certainly not ruled out the possibility of major legislative reform but, before committing itself, the Government would need to be satisfied that a scheme could be devised which could be applied effectively in practice and reflect a broad measure of agreement without entailing an unacceptable cost to the Exchequer."

2. Following publication of the Statement of Practice, proposals for change were made by a group of nine major trade and professional bodies in July 1987. Their report was an important contribution to the debate on the need for a new scheme of relief, but as the group itself recognised, it left unanswered a number of important questions which would need to be tackled in any comprehensive reform.

TEXT SUBMITTED TO FST 21 FEB (MR CAYLEY)

BUDGET CONFIDENTIAL

INLAND REVENUE
Press Release

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[3x] 14 March 1989

REFORM OF CAPITAL GAINS TAX RULES FOR GIFTS

1. In his Budget, the Chancellor proposes to reform the capital gains tax relief for gifts by individuals and trusts. Under present law, tax on any gain accrued up to the date of gift of an asset can normally be deferred until the donee disposes of the asset.

2. One of the original reasons for introducing this deferral was the existence of a simultaneous charge to capital transfer tax. With no general Inheritance Tax charge on lifetime giving, that rationale no longer applies. In addition, the capital gains tax deferral has come to be widely used not just to postpone gains but also to reduce or eliminate the tax charge on gains up to the date of gift. The reform, by substantially restricting the scope of the deferral, will make it much more difficult to use the relief for tax planning.

3. The main features of the reform are:-

(i) deferral to be restricted to

- gifts of business assets (including unquoted shares in trading companies and holding companies of trading groups)

- gifts of heritage property

- gifts to heritage maintenance funds

- gifts to political parties, and

- gifts on which there is an <u>immediate</u> charge to inheritance tax.

(ii) where deferral is not available, payment of tax by instalments will be allowed for gifts of land, controlling shareholdings, and minority holdings in unquoted companies.

(iii) some technical changes will be made to ensure that deferral does not effectively lead to gains being taken out of the capital gains charge.

/4. These changes

4. These changes will apply to gifts and disposals made on or after 14 March 1989. They are expected to yield £m10 in 1990-91, rising to £m40 in a full year.

5. Gifts to charities will be unaffected by these changes. So - apart from one technical change (see paragraph 13 of the detailed description below) - will gifts between husband and wife.

DETAIL

A. GIFTS ON WHICH DEFERRAL WILL REMAIN AVAILABLE

1. The following paragraphs describe the types of gift on which deferral will continue to be available.

(i) Business Assets

2. Business assets will be defined for this purpose to include:-

(a) assets used in a trade, profession or vocation carried on

- by the donor, or
- if the donor is an individual, by his family company or a member of a trading group of which the holding company is his family company (the definitions here will be the same as for retirement relief), or
- if the donor is a trustee, by the trustee or by a beneficiary who has an interest in possession in the settled property.

As now for Schedule 4 of the Capital Gains Tax Act, deferral will be restricted if the asset was either not used in the trade etc throughout the period of ownership or if it is a building only part of which was used in the trade etc.

(b) agricultural property which would attract 50% relief from inheritance tax (the main assets concerned are farmland and associated buildings where the donor has vacant possession).

(c) shares and securities in trading companies, or holding companies of trading groups (defined as for retirement relief), where either

- the shares or securities are neither quoted on a recognised stock exchange nor dealt in on the Unlisted Securities Market,

or

/ - if the donor

- if the donor is an individual, the company concerned is his family company (defined as for retirement relief),

<u>or</u>

- if the donor is a trustee, the trustee can exercise 25% or more of the voting rights.

As now for Schedule 4 of the Capital Gains Tax Act, deferral will be restricted if the trading company or trading group has assets not used in a trade: but this restriction will not apply if, throughout the period of twelve months before the gift, the donor had less than 5% of the voting rights in the trading company or holding company of the trading group.

(ii) <u>Heritage Property and Maintenance Funds</u>

3. The reliefs provided by Section 147 CGTA for certain disposals of works of art, historic buildings, land of scenic, historic or scientific interest, etc, will continue unaltered. The reliefs provided by subsections (1) and (3) of Section 147 are confined to outright gifts (including gifts in settlement): in cases where some consideration (but less than market value) is received, deferral will continue for disposals which attract exemption from inheritance tax.

4. In addition, deferral will continue for gifts to heritage maintenance funds which attract exemption from inheritance tax.

(iii) <u>Political Parties</u>

5. Gifts to political parties and to trusts for political parties will continue to attract deferral if they would be exempt from inheritance tax under Section 24 Inheritance Tax Act 1984.

(iv) <u>An Immediate IHT Charge</u>

6. Deferral will also continue where a gift constitutes a transfer immediately chargeable to inheritance tax. The most common examples will be gifts to discretionary trusts and companies. But deferral will not be available - except in cases falling within (i), or (ii) above - if the gift is a potentially exempt transfer on which inheritance tax in the event becomes chargeable.

7. A gift will be regarded as chargeable to inheritance tax even if it falls within the nil rate band of that tax. It will also be regarded as so chargeable if it would be immediately chargeable but for the fact that it is within the inheritance tax annual exemption (Section 19 of the Inheritance Tax Act 1984).

B. INSTALMENTS

8. Where deferral ceases to be available any capital gains tax may be paid by annual instalments over ten years if the gift is of

/- land, or

- land, or
- a controlling shareholding in a company, or
- minority holdings of shares or securities in a company neither quoted on a recognised stock exchange nor dealt in on the Unlisted Securities Market.

9. The instalments will, if paid on time, be interest free if the gift is of agricultural property (as defined for inheritance tax: the main example is tenanted agricultural land given away by the landlord). Otherwise interest will run from the normal due date for capital gains tax.

10. The first instalment will be due on the normal due date. Taxpayers may pay the tax still outstanding, plus any accrued interest, early if they do not want the instalment arrangements to run their full course. If the gift is to a connected person and the asset is subsequently sold within the ten-year instalment period, any outstanding tax and accrued interest will become payable immediately.

C. TECHNICAL CHANGES

11. Deferral is not available under present law if the gift is to a person neither resident nor ordinarily resident in the United Kingdom. Some donees may be resident for tax purposes in both the United Kingdom and another country: in such circumstances a double taxation agreement may exempt some of their assets ("prescribed assets") from the normal United Kingdom charge on capital gains. In situations where deferral would otherwise continue, it will no longer be available if the gift is of an asset which would be "prescribed" in the hands of the donee. (A rule of this kind already exists if the donee is a dual resident trust.)

12. Where shares or securities within the capital gains charge are exchanged for qualifying corporate bonds (which are exempt from charges on gains), tax on any gain on the original shares or securities is deferred until there is a disposal of the replacement bonds. Further deferral will not be allowed on a gift of the replacement bond. If the bonds become the subject of a no gain/no loss transfer (eg within a group of companies or between husband and wife) the charge on the gain is preserved but due to a technical defect in the rules it is lost if there is more than one such transfer. Legislation will be introduced to correct this defect and will apply where there is a disposal on or after 14 March 1989 which has been preceded by more than one no gain/no loss transfer.

13. The new rules will also deny deferral under the gifts relief provisions for certain arrangements designed to take business assets outside the capital gains charge, for example by transferring business assets to a company the shares in which are owned by a non-resident trust.

TEXT SUBMITTED TO FST 21 FEB (MR GORDON)

DRAFT

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Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LP
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[3x] 14 March 1989

CAPITAL TAXES: GIFTS OF LAND TO HOUSING ASSOCIATIONS

The Chancellor proposes in his Budget changes to the capital gains tax and inheritance tax rules for gifts or sales of land below market value to non-charitable Registered Housing Associations. This means

- the transferor will be liable to capital gains tax only in so far as there is a gain by reference to the actual sale proceeds; and

- the transfer will normally be exempt from inheritance tax.

These changes will apply where the transfer to the Registered Housing Association takes place on or after Budget Day.

NOTES FOR EDITORS

1. Under existing law, landowners who donate land (or sell it cheaply) to a non-charitable Housing Association can face a capital gains or inheritance tax charge based on the market value of the land. The person transferring the land may therefore face a capital gains tax liability based on an amount greater than any actual sale proceeds received. There may also be an inheritance tax charge on the decrease in value of the landowner's estate as a result of the transfer.

2. Under the Chancellor's proposals, where land is given or transferred cheaply to a Registered Housing Association the transfer will no longer be treated as taking place at market value. This means that a capital gain - which may be reduced by indexation allowance - will arise only if the actual sale proceeds exceed the amount of the allowable expenditure. If the actual sale proceeds do not exceed the amount of the allowable expenditure, the landowner will be treated as making neither a gain nor a loss after any indexation allowance.

/3. The Chancellor's

3. The Chancellor's proposals also mean that gifts or sales below market value of land to a Registered Housing Association will normally be exempt from inheritance tax.

4. As far as the landowner is concerned, the effect of these changes will be to bring the CGT and IHT treatment of transactions with non-charitable Registered Housing Associations into line with the rules which already apply to transactions with charitable Housing Associations.

5. The estimated cost of these changes is negligible.

TEXT SUBMITTED TO FST 21 FEB (MR GORDON)

DRAFT

INLAND REVENUE

Press Release

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[3x] 14 March 1989

CAPITAL GAINS TAX: NON-RESIDENTS WITH UK BRANCH OR AGENCY AND DUAL RESIDENT COMPANIES

The Chancellor proposes in his Budget a reform of the capital gains tax rules for non-residents carrying on a business in the UK through branches or agencies. He also proposes to introduce rules dealing with companies which are resident in both the UK and another country for tax purposes. Without these changes there would be a risk of substantial tax loss to the Exchequer, in particular from avoidance of the charge on migrating companies introduced last year.

(A) Non-Residents with UK branch or agency

1. The Chancellor proposes that:

(a) any unrealised gains on assets will be chargeable if

(i) the UK business ceases; or

(ii) the assets are removed from the UK;

(b) the capital gains tax rollover relief will be available only where the replacement asset is within the UK tax charge;

(c) non-residents carrying on professions or vocations in the UK through a branch or agency will be treated in the same way as traders; but in this case only gains accruing from Budget Day will be brought into charge;

(d) if a non-resident company fails to meet its liability on branch or agency gains other companies in the same group or controlling directors may be called upon to meet the liability;

(e) with necessary modifications, the changes will extend to certain non-mobile assets and dedicated mobile assets used in connection with the exploration or exploitation of the UK continental shelf.

/2. The changes

2. The changes will generally apply where the disposal (or cessation or removal of the asset from the UK as the case may be) takes place on or after Budget Day.

Background

3. At present a person who is not resident (and in the case of an individual, not ordinarily resident) in the UK is not normally chargeable to capital gains tax (or corporation tax on capital gains in the case of companies). Such a person is however chargeable on the disposal of an asset which is situated in the UK and which is or has been used for the purpose of a trade carried on in the UK through a branch or agency in the year of assessment in which the disposal takes place.

(B) Dual-resident Companies

4. The Chancellor proposes that where assets of a dual resident company change, under the terms of the double taxation agreement, from being within the UK tax charge to being outside it, the company will be liable to tax on all unrealised gains on those assets.

5. The change will apply where the asset ceases to be within the UK tax charge on or after Budget Day.

6. At the same time the change to the capital gains tax rollover relief rules described in paragraph 1(b) above is extended to dual resident companies.

Background

7. A company which is resident in the UK may at the same time be treated as resident abroad under the terms of a double taxation agreement. The double taxation agreement will specify to what extent assets belonging to the company are within the UK tax charge, and to what extent they are outside. Where a company resident in the UK becomes dual resident then - following changes last year - it has to pay tax on all unrealised gains on assets which, under the relevant double taxation agreement, thereafter fall outside the UK tax charge.

NOTES FOR EDITORS

1. These changes will counter arrangements by which non-residents carrying on a business in the UK through a branch or agency may be able very easily to avoid the intended capital gains tax charge on the disposal of assets situated in the UK and used for that business.

/2. At present

2. At present the charge is generally confined to assets situated in the UK which are sold while the trade is continuing. So if the trade ceases before the asset is sold the charge is normally lost. Similarly if the asset is removed from the UK before being sold the charge is lost. Even where the UK asset is sold while the trade is continuing, capital gains tax rollover relief permits the non-resident vendor to roll the gain into assets which are outside the UK tax net, and so again the charge may be permanently lost.

3. Until recently the scope for, and extent of, abuse was limited. However last year new company residence and migration rules were introduced. Under these, companies wishing to migrate have to pay tax on unrealised gains on migration; but that charge does not apply to assets of a branch or agency which remain in the UK and thus still within the UK tax net. So companies wishing to migrate may very easily be able to arrange things so that their assets remain in the UK in a branch or agency - thus avoiding the emigration charge - and then to exploit the weaknesses in existing law to take gains wholly out of tax. Many millions of tax may be at stake.

4. The measures proposed by the Chancellor will counter these possibilities by ensuring that those carrying on business in the UK through a branch or agency pay tax on all unrealised gains when the business ceases and on any unrealised gain on an asset, if that asset is removed from the UK. At the same time the CGT rollover relief rules (which allow deferral of tax where disposal proceeds are used to acquire certain replacement assets within certain time limits) are being tightened up; and because of the possible difficulty of collecting tax from non-residents extra enforcement powers are being provided on the same lines as those already applying for the gains charge on companies which migrate. With necessary modifications the rules are extended to those involved in the use of certain non-mobile assets and dedicated mobile assets for the exploration or exploitation of the UK continental shelf.

5. Both the existing and the new rules are also extended as appropriate to non-residents carrying on professions or vocations here through a branch or agency. But because these persons have not hitherto been liable to capital gains tax it would be hard to justify catching all gains realised on or after Budget Day; so the change will apply only to gains accruing on or after Budget Day.

6. Finally, rules are being introduced for dual resident companies whose assets cease - under the terms of a double taxation agreement - to be within the UK tax charge. These rules will be in line with those introduced last year for companies whose assets cease to be within the UK tax charge when they become dual resident. As is the case for companies becoming dual resident there will be a charge on any unrealised gains on the relevant assets. As for non-residents carrying on business in the

/UK through a

UK through a branch or agency, the CGT rollover relief rules are being tightened up.

Compliance Cost Assessments

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

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

BUDGET CONFIDENTIAL

TEXT SUBMITTED 22 FEB FOR APPROVAL (BY MISS DYALL)

INLAND REVENUE

Press Release

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

[3x] 14 March 1989

CAPITAL GAINS: MISCELLANEOUS PROPOSALS

In his Budget the Chancellor proposes:-

(i) to increase from £3,000 to £5,000 the exemption for chattels, including chattels used in a trade, with effect from 6 April 1989;

(ii) to maintain the annual exemption at its present level. For 1989/90 (as for 1988/89) an individual will be exempt on the first £5,000, and most trusts on the first £2,500 of gains;

(iii) to extend the exemption from capital gains tax, and corporation tax on gains, for disposals of qualifying corporate bonds to non-convertible sterling bonds generally. The change will apply to disposals made on or after 14 March 1989 of non-convertible sterling bonds, and to options and contracts to acquire or dispose of such bonds.

It is also proposed to make some minor technical amendments to clarify the application of rebasing in some special circumstances. The detailed provisions will be included in the Finance Bill.

NOTES FOR EDITORS

Exemption for chattels

1. A chattel is an item of tangible movable property such as a picture, antique, piece of jewellery etc. Business assets which are chattels include plant and machinery. Under present law the gain accruing on the disposal of a chattel is exempt from capital gains tax if the consideration for the disposal does not exceed £3,000. The charge is tapered where the consideration just exceeds this amount. The new limit of £5,000 will apply to disposals on or after 6 April 1989 in the same way as the present limit.

/Annual exempt

Annual exempt amount

2. At present an individual whose total net gains in a year of assessment do not exceed £5,000 is not liable to capital gains tax. This exemption is also available to the trustees of a mentally disabled person or a person in receipt of attendance allowance, and to personal representatives for gains accruing to them in the year of death and the two following years of assessment. For trustees of other settlements the exempt amount is £2,500.

Qualifying Corporate Bonds

3. Disposals of qualifying corporate bonds have been exempt from capital gains tax since 1984. At present the exemption is limited to non-convertible sterling bonds which

- from the time of issue have been quoted on the UK Stock Exchange or dealt in on the Unlisted Securities Market; or

- issued by a UK company or other body with shares or securities quoted on the UK Stock Exchange or dealt in on the Unlisted Securities Market.

It is proposed to remove this limitation.

Rebasing

4. In the 1988 Finance Act the base date for computing capital gains was brought forward from 1965 to 1982. The Finance Bill will include some minor clarifications of the rebasing rules. Very few people are likely to be affected. The main changes concerned will be designed to ensure that:-

(i) rebasing will eliminate the charge on certain gains deferred before 1982. This change will apply to disposals on or after 6 April 1988 - the start date for the general rebasing provisions; and

(ii) an appropriate adjustment is made to an asset's 1982 value where there has been a small part-disposal between 1982 and 1988 but the consideration received exceeded the allowable expenditure. This will have effect for disposals on or after 6 April 1989.

TEXT SUBMITTED TO FST FOR APPROVAL (MR SHAW)

BUDGET CONFIDENTIAL

INLAND REVENUE

INLAND
REVENUE

Press Release

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

[3x] 14 March 1989

TAXES MANAGEMENT: MEASURES TO MODERNISE THE COMPLIANCE SYSTEM

The Chancellor proposes in his Budget to introduce measures to

- simplify and update the system of interest and monetary penalties for tax offences, and

- modernise the information and search powers of the Inland Revenue and provide greater safeguards for the taxpayer.

These measures are based on recommendations of the Keith Committee for the reform of the compliance system for income tax, capital gains tax and corporation tax. They take account of extensive consultations with business and professional organisations. Together with measures introduced in the last two Finance Acts, they substantially complete the Government's programme of reform in this area.

Most of these measures will take effect immediately, although some will be introduced gradually over a lengthy transitional period.

MAIN PROPOSALS

1. The proposals are designed to modernise and simplify the administrative structure of the compliance system, to provide a proper balance between taxpayers' rights and obligations, and between the powers of the Revenue and safeguards for taxpayers. The proposals are in the following areas:

- civil penalties for tax offences;

- the compliance regime for employers' PAYE;

- Revenue interest provisions;

- time limits for assessments on tax offenders and claims for further reliefs;

- Revenue information powers, including protection for accountants broadly equivalent to that for lawyers;

/- a new criminal

- a new criminal offence for the intentional falsification or destruction of documents called for under the Revenue's information powers;
- Revenue search powers;
- seizure of goods to meet tax debts.

DETAILS OF MAIN PROPOSALS

Civil penalties for tax offences

2. It is proposed to update, simplify and streamline the system of civil penalties for tax offences. This will result in a simpler structure of penalties which can be applied easily and fairly, so that offences of similar seriousness attract similar penalties.

3. Tax offences can be divided into four groups, each with its own type of penalty. The new proposals bring these penalties up to date, restore limits eroded by inflation, remove obsolete limits and eliminate differences within each group.

4. First, there is the group of fully-mitigable tax-geared penalties for offences that put tax seriously at risk - for instance, omissions from tax returns and very long delays in completing personal tax returns, continuing beyond the end of the tax year following the year in which the return is issued. The penalties for offences in this group are, at present, up to £50 plus 100 per cent, or in some cases 200 per cent, of the tax underpaid or paid late. In practice, the penalties are based on 100 per cent of the tax and further mitigated according to the seriousness of the offence. It is proposed to bring the law into line with practice, and make the penalty 100 per cent of the tax, fully-mitigable, for offences in this group.

5. Second, there is the group of fully-mitigable fixed limit penalties for offences that help to put tax seriously at risk - for instance, where a business omits payments to persons in the black economy from an information return or an accountant helps a taxpayer to prepare a false return. The penalties for offences in this group are, at present, up to £250, or, in certain cases, £500. It is proposed to increase these penalties in line with inflation since they were last set in 1960, and to eliminate the differences. This will give a single penalty of up to £3000, fully-mitigable, for each offence in this group.

6. Third, there is the group of fully-mitigable fixed limit penalties for delay. These arise in the present compliance regimes, where the Revenue can take proceedings before the Appeal Commissioners to force a taxpayer to complete an overdue return - for instance, for a personal tax return or an information return from a business. The penalties for offences in this group are, at present, up to £50 for the initial offence, and up to £10 per day if it continues thereafter. It is proposed to increase these limits in line with inflation since they were last set in 1960, to up to £300 for the initial offence, and up to £60 per day if it continues thereafter, both fully-mitigable.

/7. Offences

7. Offences in this group can be further subdivided into obligations which are imposed at the Revenue's discretion, for instance to complete a tax return, and obligations which are imposed automatically by law, for instance to account to the Revenue for tax deducted at source. It is proposed to add a further safeguard for the taxpayer, for offences within the first category, by providing for a final warning to be given to complete the overdue return before a penalty can be awarded. It would not be appropriate, however, to allow a final warning before penalties can be awarded for offences in the second category.

8. Fourth, there is the group of automatic, that is non-mitigable, penalties for failing to make returns. These arise in the more modern compliance regimes, where the taxpayer is automatically required to complete a return. A modern compliance regime for companies, known as Pay and File, was introduced in Finance (No 2) Act 1987. It is now proposed to introduce a broadly similar, modern compliance regime for employers and this is described further below.

A modern compliance regime for employers

9. At the end of the tax year, the employer is required to make an end of year return providing details of pay, PAYE and NIC deductions for his employees (forms P14, P35 and P38/38A). At present, the end of year return is due on April 19. It is proposed to change the due date to May 19 and to introduce a new system of penalties for late returns. (NB These proposals relate only to the end of year returns. Other employer's returns, including forms P11D, will continue to be dealt with under the present compliance regime.)

10. It is proposed to introduce automatic penalties for late end of year returns. This will be a penalty of £100 for each 50 employees, and for each month the return is late up to 12 months. The automatic penalties will not begin before 1995.

11. It is proposed to tighten up the compliance rules gradually over the transitional period, starting with the 1989/1990 return due on 19 May 1990 and continuing up to the introduction of automatic penalties. Under these proposals, the Revenue will be able to take proceedings before the Appeal Commissioners for late end of year returns. The Commissioners will be able to award an initial penalty of up to £1200 per 50 employees. If the failure continues thereafter, automatic penalties of £100 per 50 employees and per month will be charged for further delays, up to 12 months after the original due date. There would be no final warning before proceedings were taken, but in the first year of operation, proceedings would not be taken for returns that were less than three months overdue, that is that were made by 19 August. This would be reduced progressively over the transitional period, to allow penalty proceedings to be taken for any late return from 1995 onwards.

12. It is proposed also to introduce a separate, fully-mitigable penalty for delays in completing end of year

/returns of more

returns of more than 12 months and for incorrect end of year returns, of up to 100 per cent of the tax underpaid or paid late as a result.

13. These proposals for PAYE deductions apply in the same way to NIC deductions, which are collected with them, and to deductions under the scheme for subcontractors in the construction industry, which are collected under similar rules.

Default interest

14. Where tax is assessed late as a result of an offence by a taxpayer, interest is charged from the date that the tax would have been due if it had been assessed at the correct time. It is proposed to extend this "default" interest more generally, to any tax which is assessed late as a result of an incorrect return. This is to eliminate the advantage that the taxpayer would otherwise enjoy over a taxpayer who completed his return correctly, and to compensate the Exchequer for the delay in payment of the tax.

Determining default interest and penalties

15. It is proposed to introduce a simpler and more streamlined procedure for charging default interest and penalties. Under the new procedure, the Revenue will make a formal determination of the penalty, or that default interest is due. This will be similar to an assessment. It will not alter in any way the taxpayer's rights to challenge whether default interest or a penalty is due, or the amount thereof, before the Appeal Commissioners or the Courts.

16. The new procedure will not apply to the initial penalties in the present compliance regimes (see paragraph 6 above), as these can be awarded only where proceedings are taken before the Appeal Commissioners.

Interest provisions

17. Changes to the interest rates charged on late payments to the Revenue, and paid on repayments by the Revenue, are presently made by statutory instrument. This is a slow and cumbersome procedure which makes it difficult to keep rates closely in line with the market. It is proposed to introduce a more open and streamlined procedure under which formulae by which rates are to be set would be made by statutory instrument, and rate changes would then be made automatically to follow changes in market rates.

18. It is proposed to redraft the rules for charging interest on overdue tax, but without changing the way in which they work. The purpose of the redraft is to make the provision easier to understand and to remove a possible technical defect in the drafting.

19. The main rule is that interest does not start to run on tax in dispute until six months after the normal due date. The rules were amended in 1982 to provide that interest ran in the same way

/where an assessment

where an assessment was increased on appeal. The Revenue have always applied this rule in the way it was intended to work. It now appears that it may be defective in certain exceptional cases where an assessment is first reduced by the Commissioners and then increased by a higher Court. For avoidance of doubt, it is proposed to correct this possible defect. As the purpose of the correction is to confirm the way in which the law has been applied since 1982, the amendment will be retrospective to 1982.

20. All repayments by the Revenue are made by payable order. A wide range of provisions require the Revenue to include interest with the repayment which is calculated up to the day that the payable order is issued. There is now doubt that this is the effect of the wording in some cases. It is, therefore, proposed to amend these provisions to use common wording which puts it beyond doubt that interest is to be calculated up to the day that the order is issued. Here too the purpose of the correction is to confirm the way in which the law has been applied and the changes will therefore be retrospective.

21. It is proposed to introduce a new procedure for companies, to come into effect together with Pay and File (the new system for payment of corporation tax, which will not start earlier than 1992) to allow repayments to be surrendered within groups. Under this procedure, a company would be able to surrender a repayment of corporation tax, income tax, or payment of tax credit, to another company within the same group. The surrendered payment would be treated as if it had originally been made by the receiving company for the same accounting period. The purpose of this provision is to allow groups to rearrange tax liabilities within the group without being subject to the differential that is proposed for Pay and File between the interest rates on overdue tax and on repayments.

Time limits

22. The normal time limit for making an assessment of tax is six years from the end of the period being assessed. This is extended, in some cases indefinitely, for assessments made to recover tax which has not been paid as a result of an offence by the taxpayer. It is proposed to introduce a uniform time limit of 20 years for these "default" assessments. This brings the time limits for direct taxes into line with those for VAT.

23. Taxpayers are allowed extra time to make claims for reliefs against default assessments. It is proposed to introduce a similar extension of time limits for claims to relief where the Revenue discovers that further tax is due but there is no offence by the taxpayer - for instance as a result of an innocent error. The taxpayer will be allowed to make, or vary, claims to reliefs up to one year after the assessable period in which the discovery assessment is made, so as to reduce his tax liabilities by up to the amount charged by the discovery assessment.

Information powers

24. It is proposed to update the Revenue's powers to call for information about a taxpayer whose affairs are under enquiry. At

/present, the

present, the Revenue can call only for documents which are already in existence. It is proposed to allow the Revenue to require the taxpayer to give written answers to written questions of fact. This brings the Revenue's information powers into line with the similar powers of the Appeal Commissioners.

25. At present, the working papers of an accountant are protected from disclosure under the Revenue's information powers. It is proposed to replace this by a better focused protection which protects audit papers from disclosure by a company's auditor and tax advice from disclosure by a taxpayer's tax adviser, but allows the Revenue access to facts essential to the understanding of a taxpayer's return and accounts. The new provision will give accountants protection which is broadly equivalent to that given, for tax, to lawyers.

26. Furthermore, it is proposed to give additional safeguards to the taxpayer, in line with police search powers, by protecting personal records and journalistic material from disclosure to the Revenue; and, except in certain serious cases where the notice is given by the Board of Inland Revenue, to allow not less than 30 days for the documents or information to be produced.

Falsification of documents

27. It is proposed to introduce a criminal sanction against the falsification or destruction of documents which the Revenue has called for under its information powers.

28. This will provide that a person who intentionally falsifies or destroys a document which the Revenue has called for under its information powers is guilty of a criminal offence. He is automatically released from this obligation to preserve the document once it has been seen by the Revenue, six months after the initial informal request for access has been made and, unless the Revenue renews its request for access, two years after the formal request. He can also apply to the Revenue or to the Appeal Commissioners to be released from the obligation. A person guilty of an offence under this provision will be liable, on summary conviction, to a fine not exceeding £2000 or, on conviction on indictment, to an unlimited fine and to imprisonment for up to two years.

Search powers

29. It is proposed to update the Revenue's search powers, to restrict them to cases of serious fraud and to provide further safeguards for the public in line with police and VAT search powers.

30. It is proposed to make the search warrant more specific, so that the warrant must show, and the Judge approve, the number of Revenue officers who may carry out the search, the time of day at which it is to be carried out and whether a uniformed police constable should be present.

31. The officer conducting the search will be allowed to take with him other persons whom he considers to be necessary, for

/example a

example a locksmith or an interpreter. Persons on the premises may be searched, but only by a person of the same sex - this can, for instance, be necessary if the taxpayer tries to conceal a bank book in his pocket whilst the search is in progress.

32. It is proposed to introduce detailed rules for the conduct of the search, requiring the officer in charge of the search to give a copy of the warrant, endorsed with his name, to the occupier if he is present or to leave a copy of the warrant prominently displayed on the premises. The officer will be required to leave a list of things seized from the premises. The warrant will be required to be returned to the Court, to be retained there for 12 months and to be available for inspection by the occupier of the premises to which it relates. This last provision, in line with the corresponding provision for police searches, applies to England and Wales only.

33. It is proposed to introduce detailed rules, in line with those for police search powers, to allow the taxpayer access to documents seized in the course of a search. Where a copy of the things seized would be sufficient as evidence or for the investigation, the original will be returned to the taxpayer. The taxpayer will also be given a right of access to the property seized, and to take copies thereof, except where this would be prejudicial to the investigation or criminal proceedings.

Seizure of goods to meet a tax debt

34. It is proposed to update the Revenue's powers to seize goods to meet a tax debt. The main changes are designed to update the wording without changing its meaning. Changes are also proposed to the rules for break-open warrants and priority claims.

35. Break-open warrants, allowing forcible entry to premises, are, very occasionally, needed in order to seize goods to meet a tax debt. At present, the warrant has to be obtained from the General Commissioners. It is proposed to change the level of authority to a Justice of the Peace, so as to provide greater judicial oversight of the power.

36. Where a third-party has seized goods to meet a debt, the Revenue can, in some circumstances, claim up to one year's tax debts from him. It is proposed to restrict the Revenue's priority claim to tax debts for deductions of PAYE and from subcontractors in the construction industry made in the last 12 months. This is in line with the provisions in the 1985 Insolvency Act which reduced the Inland Revenue's preferential claims in an insolvency.

NOTES FOR EDITORS

The Keith Report

1. The Keith Committee on the enforcement powers of the Revenue Departments was set up in July 1980 to

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enquire into the tax enforcement powers of the Board of Inland Revenue and the Board of Customs and Excise. It was chaired by a Law Lord, Lord Keith of Kinkel PC. The Committee took evidence from bodies representing industry, trade, the professions and trade unions, as well as from individuals and from the Revenue Departments.

2. The Committee's Report is in four volumes. Volumes 1 and 2 were published (Cmnd 8822) on 23 March 1983 and covered income tax, corporation tax, capital gains tax and VAT.

3. Since publication, extensive consultations have been held with a number of representative bodies.

4. Proposals in response to the recommendations in Volumes 1 and 2 of the Report were published in a consultative document "The Inland Revenue and the Taxpayer" in December 1986. Measures based on these proposals were included in the Finance (No 2) Act 1987 and in the Finance Act 1988.

5. Further suggestions for implementing the remainder of the recommendations in Volumes 1 and 2 of the Report were published in a consultative paper "Keith: Further Proposals" in July 1988. This year's proposals are based on these further suggestions, modified in the light of responses to the consultative paper.

6. This year's proposals complete the Government's programme of legislation for implementing the recommendations of the Keith Committee for income tax, capital gains tax and corporation tax, except for the recommendations on the administration and conduct of appeals. The Government has announced that proposals for legislation in this area are being considered by the Inland Revenue and the Lord Chancellor's Department and will be the subject of a separate consultative document or documents.

Compliance cost assessments

7. Assessments of the compliance costs of proposals affecting businesses are available. A copy of the compliance cost assessment for this proposal can be obtained from:

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

[3x] 14 March 1989

OFFSHORE UMBRELLA FUNDS

The Chancellor proposes in his Budget that switches made on or after today within offshore "umbrella" funds should be taxable. This will mean that switches within offshore funds and onshore unit trusts will have the same tax treatment.

DETAILS

Currently, where a switch is made from one class of investments in an offshore fund to another, there is no disposal for tax purposes. From today, UK investors will be liable to tax on any gain arising when they switch holdings within an offshore fund or any other "umbrella" collective investment scheme.

For offshore funds, the treatment of switches will follow the existing treatment for disposals of holdings. In the case of offshore funds not certified by the Inland Revenue as "distributing funds" the charge will be to income tax (under Case VI Schedule D). In all other cases the charge will be capital gains tax.

NOTES FOR EDITORS

1. The term "umbrella fund" applies to investment funds whose investments are divided into different sub-funds, the rules of the fund permitting investors to switch their investments from one sub-fund to another. They commonly take the form of "open-ended" investment companies whose share capital can be increased or decreased at will.

2. Switching within offshore funds is at present covered by the share reorganisation provisions in Section 78 CGTA 1979 which effectively exempt the investor from any tax liability. Under the legislation proposed by the Chancellor, Section 78 will be disapplied for such switches. Consequently there will be a disposal for all capital gains tax purposes, including the offshore funds provisions in Chapter V Part XVII ICTA 1988.

3. The charge on switches within UK unit trusts is currently provided for by Section 78 F(No.2)A 1987. The present proposal will cover switches in all umbrella collective investment schemes. This will enable Section 78 (F(No.2)A 1987 to be repealed.

Draft

INLAND REVENUE

Press Release

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

14 March 1989

[3x]

THE BUDGET 1989 : INCOME TAX

1. The Chancellor proposes in his Budget

- to increase the main income tax allowances and the basic rate limit by about 6.8 per cent in line with the statutory indexation requirement;

- to extend to those aged 75 and over the higher level of age allowance currently given to those aged 80 and over;

- to reduce the rate at which the age allowance is withdrawn when a taxpayer's income exceeds the aged income limit;

- to make no change in the basic and higher rates of income tax.

2. The changes will mean that most single taxpayers and married women will pay 87p per week less tax and most married men will pay £1.34 per week less tax. The tax reductions, including any tax overpaid from 6 April, will be in pay packets on the first pay day after 17 May.

3. The increases in allowances are the amounts required under statutory indexation based on the increase in the Retail Price Index of 6.8 per cent in the year to December 1988, rounded in accordance with the statutory provisions. The married man's allowance is increased by £280 to £4,375 and the single person's allowance and wife's earned income allowance are increased by £180 to £2,785. The additional personal allowance (mainly for single parents) and the widow's bereavement allowance - which are automatically equal to the difference between the married and single allowances - increase by £100 to £1,590.

4. Age allowances are also increased: by £220 to £3,400 for single people aged 65 to 74 and by £350 to £5,385 for married couples aged 65 to 74. For those aged 80 and over, the single

/age

age allowance is increased by £230 to £3,540 and the married age allowance is increased by £360 to £5,565. The higher level of age allowance currently given to those aged 80 and over is extended to those aged 75 and over. For those aged 75 to 79, the single age allowance is increased by £360 from £3,180 to £3,540 and the married age allowance by £530 from £5,035 to £5,565.

5. The income limit for age allowances rises to £11,400 and the rate at which age allowance is withdrawn above the income limit is reduced from £2 of allowances for every additional £3 of income to £1 allowances for every additional £2 of income. The effective rate of tax in the withdrawal band will fall from 41.67 per cent in 1988-89 to 37.5 per cent in 1989-90.

6. The Chancellor also proposes to increase the basic rate limit by the amount indicated by the indexation formula, that is by £1,400 to £20,700 of taxable income. The increases in the basic rate limit and the allowances mean that a single person with income of over £23,485 will pay £282 less tax in 1989-90 and a married men with income over £25,075 will pay £322 less tax if they have no other allowances or tax reliefs.

7. The Chancellor's proposals in detail are as follows:

(1) <u>Income Tax Allowances</u>

	1988-89	Proposed increase		1989-90 Proposed level
	£	£	per cent	£
Single person's allowance and wife's earned income allowance	2,605	180	6.9	2,785
Married man's allowance	4,095	280	6.8	4,375
Additional personal allowance and widow's bereavement allowance	1,490	100	6.7	1,590
Single age allowance (age 65-74)	3,180	220	6.9	3,400
Single age allowance (age 74-79)	3,180	360	11.3	3,540
Single age allowance (age 80 and over)	3,310	230	6.9	3,540
Married age allowance (age 65-74)	5,035	350	7.0	5,385
Married age allowance (age 75-79)	5,035	530	10.5	5,565
Married age allowance (age 80 and over)	5,205	360	6.9	5,565
Age allowance income limit	10,600	800	7.9	11,400

/(2)

(2) Rates and Rate bands

Rate of tax	1988-89 taxable income	Proposed increase in starting point		1989-90 Proposed taxable income
per cent	£	£	per cent	£
25	0-19,300	-	-	0-20,700
40	Over 19,300	1,400	7.3	Over 20,700

8. The total direct revenue costs of these proposals will be about £1.5 billion in 1989-90. The changes to the structure of age allowances above the level required for indexation will cost £15 million.

Costs (£ million)	1989-90		1990-91
	total costs	costs above indexation	costs above indexation
Increases in main personal allowances	1,140	-	-
Increases in age allowances and income limit	125	10	15
Reduction in age allowance withdrawal rate	5	5	5
Increase in basic rate limit	210	-	-
Totals	1,480	15	20

9. The Chancellor also proposes in his Budget to reduce the employee's levels of National Insurance Contributions (NIC) from 1 October 1989. The rates will be as follows:-

Weekly Earnings £	NIC Rate %
Under 43	0
43 - 75	5
75 - 358	9
Above 358	0

The rates will be applied in the following manner:

- for those earning less than £43, no NIC is payable;
- for those earning between £43 and below £75, NIC is payable at 5 per cent on the full amount of earnings;
- for those earning £75 or more, NIC is payable at 5 per cent of £75 plus 9 per cent of the earnings above £75 up to total earnings of £358.

/The

The rebate for those contracted out of SERPS is unchanged at 2 per cent. Full details of the changes to NIC rates are given in a Press Notice by the Department of Social Security published today.

Illustrative changes

10. The effects of the changes on individual taxpayers at various levels of income are illustrated in the attached tables, which assume that the taxpayer has no reliefs other than his or her personal allowance. Tables 1 and 2 show the effects of the changes in income tax proposed in the Budget for 1989-90 for single and married taxpayers compared with 1988-89. Tables 3A-3C shows the effects for people aged 65 to 74, 74 to 79 and those aged 80 and over. Tables 4,5A to 5C give information in weekly, instead of annual, terms for levels of income up to £600 a week.

11. Tables 6 and 7 show the effects on the weekly net income of single and married taxpayers and families with two children, after taking account of the new structure of National Insurance Contributions to be introduced in October and child benefit.

12. The remaining tables illustrate the effect of the income tax and National Insurance Contributions changes after taking account of the effects of increases in earnings. For illustration, an increase in earnings of 7.5 per cent has been assumed. This is the rate of increase between 1988-89 and 1989-90 taken by the Government Actuary as a working assumption for his annual review of National Insurance Contributions (see paragraph 3.02 of the Autumn Statement 1988). Table 10 includes the effect of child benefit for a married couple with two children. Finally, Table 11 shows changes in the weekly income after tax of a married couple where both partners are working.

Note for Editors

The indexed figures for allowances and thresholds are set out in an Order made today by the Treasury under Sections 1(6) and 257(11) of the Income and Corporation Taxes Act 1988. Sections 1(4) and 257(9) of this Act require 1988-89 allowances and thresholds to be increased by the same percentage (6.8 per cent) as the percentage increase in the general index of retail prices (RPI) between December 1987 and December 1988; and

i. in the case of the rate bands and age allowance income limit, the result to be rounded up to the nearest multiple of £100; and

ii. otherwise, the increase to be rounded up to the nearest multiple of £10; although

iii. additional personal allowance and widow's bereavement allowance are automatically equal to the difference between the married man's allowance and the single person's allowance.

BUDGET CONFIDENTIAL

INLAND REVENUE

Press Release

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

[3x]

14 March 1989

INCOME TAX: COMPANY CARS

The Chancellor proposes in his Budget to increase the scale charges for taxing employees on the private use of company cars by [20] per cent. This is a further step in reducing the undervaluation of company cars for tax purposes. The changes will take effect from 6 April 1989.

The increase will affect approximately 1.4 million directors and employees. It will yield £90 million in 1989/90 and £110 million in 1990/91.

No increase is proposed in the separate scales for fuel provided for private motoring in company cars.

DETAILS

1. Company cars are provided for directors and employees in a wide variety of circumstances. In some circumstances there is little or no business use and the car is provided essentially as part of the employee's remuneration. In other cases - more commonly - there is some significant business use, and many company cars cover a very large business mileage.

2. The car scales charge directors and employees earning over £8,500 a year on the benefit of having a car provided by their employer available for private use. While the car scales at present take broad account of the number of business miles for which the car is used, they are essentially concerned with the private use of the car, not its business use. They are a means of putting a figure for tax purposes on the value to the employee of having the car available for private use. The need for a car to cover a substantial business mileage does not reduce the value to the employee of its use for private purposes. The average private use of company cars does not vary significantly whether the business mileage is high or low.

Implementation

3. The new rates will take effect from 6 April 1989. The necessary legislation will be included in the Finance Bill. Tax

/ offices will review

offices will review and amend all PAYE codes containing an adjustment for car benefits individually to reflect the proposed scale charges. Employers and employees will be notified of the revised codes which will generally take effect on the first pay day after 17 May 1989, at the same time as the increases in personal allowances and thresholds are implemented.

A **CAR BENEFIT SCALE CHARGES AND TAX INCREASES PROPOSED FOR 1989-90 FOR CARS UNDER 4 YEARS OLD**

Original Market Value	Engine Size	Standard Scale Charge	Tax Increase for 1989/90 (Basic Rate Taxpayer)		
			High Business Mileage(1)	Average Business Mileage	Low Business Mileage(2)
£	cc	£	£	£	£
Up to 19,250	0-1400	1,260	26.25	52.50	78.75
	1401-2000	1,680	35.00	70.00	105.00
	2001 +	2,640	55.00	110.00	165.00
19,250 to 29,000	All	3,480	72.50	145.00	217.50
Over 29,000	All	5,520	115.00	230.00	345.00

B **CAR BENEFIT SCALE CHARGES AND TAX INCREASES PROPOSED FOR 1989-90 FOR CARS OVER 4 YEARS OLD**

Original Market Value	Engine Size(1)	Standard Scale Charge	Tax Increase for 1989/90 (Basic Rate Taxpayer)		
			High Business Mileage(2)	Average Business Mileage	Low Business Mileage(3)
£	cc	£	£	£	£
Up to 19,250	0-1400	840	17.50	35.00	52.50
	1401-2000	1,130	23.75	47.50	71.25
	2001+	1,740	36.25	72.50	108.75
19,250-29,000	All	2,330	48.75	97.50	146.25
Over 29,000	All	3,670	76.25	152.50	228.75

/TABLE C

C **CAR FUEL SCALE CHARGES IN 1989-90 (UNCHANGED)**

Engine Size cc	Scale Charge £
0-1400	480
1401-2000	600
2001+	900

(1) The car scale charges and the car fuel scale charge are reduced by half for a car used for 18,000 or more business miles a year.

(2) The car scale charges, but not the fuel scale charges, are increased by half for a second car or a car used for under 2,500 business miles a year.

3. Separate scale charges apply to cars with unconventional engines as follows:-

Original Market Value	Conventional Car Equivalent
less than £6,000	Up to 1400cc
£6,000 to £8,499	1401-2000cc
£8,500 to £19,250	Over 2000cc

/NOTES FOR EDITORS

BUDGET CONFIDENTIAL

NOTES FOR EDITORS

1. The Income and Corporation Taxes Act 1988 contains special rules (in Chapter II, Part V) for taxing benefits and expenses payments provided for directors and employees earning at a rate of £8,500 a year or more, including expenses and benefits. Under these rules the value of the benefit (its "cash equivalent") is added to his income and taxed at the taxpayers marginal rate.

2. The car scales give the amounts of the "cash equivalents" - the amount on which the employee will pay tax in respect of the benefit of having a company car available for private use in 1989/90. A typical company motorist (driving a 1600cc car less than 4 years old) will pay about £8.08 a week in tax for the car compared with £6.73 in 1988/89. (A further £2.88 a week will be payable if fuel is provided for private motoring.)

3. Both the car and car fuel scales are <u>halved</u> for the motorist who does 18,000 <u>business</u> miles or more in the tax year. The car scale (but not the fuel scale) is increased by 50 per cent if the car is a second company car or is driven for less than 2,500 business miles in the tax year.

4. The car scales (which were introduced in 1977/78) are reduced pound for pound for contributions which the employee is required to make for the private use of the car. The car fuel scale is reduced to Nil if the employee makes good <u>all</u> the fuel used for private journeys. Journeys between an individual's home and place of work are regarded as private motoring.

5. Since April 1987, the car fuel scale has been used to assess VAT due on fuel provided out of business resources for private motoring by registered traders and their employees as well as to determine the amount on which income tax is payable on free private fuel for company cars. The Chancellor's decision not to increase the car fuel scale charges in 1989-90 means that they will not have been increased since 1986.

INLAND REVENUE

Press Release

INLAND REVENUE PRESS OFFICE, SOMERSET HOUSE, STRAND, LONDON WC2R 1LB
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[3X] 14 March 1989

NEW TAX RELIEF FOR EMPLOYEE SHARE OWNERSHIP PLANS (ESOPs)

The Chancellor proposes in his Budget a new tax relief to encourage companies wishing to promote employee share ownership through arrangements including specially set-up trusts (commonly known as ESOPs).

Payments by companies to ESOP trusts set up to distribute shares to the company's employees will qualify for corporation tax relief, provided certain conditions are met. Key features of the qualifying conditions will be that shares must be distributed to employees within a maximum of 7 years of their acquisition by the trust, and on an all-employee, similar terms, basis.

1. Various tax reliefs are already available in connection with trusts set-up to run approved employee share schemes under legislation introduced in the Finance Act 1978. But some companies wish to encourage employee share ownership through ESOP trusts, which may differ in some important respects from trusts set up under the 1978 legislation. In particular, ESOP trusts

- may borrow to acquire their shares rather than relying entirely on funds provided by the company

/ may need to hold

- may need to hold shares for a longer period (for example, while repaying borrowings) than the maximum 18 months permitted under the 1978 scheme

- may wish to distribute larger amounts of shares to employees than is possible under 1978 schemes

- in the case of unquoted companies, may wish to provide a market for the company's shares for the benefit of employees.

2. At present there are no tax reliefs expressly directed towards ESOPs. Depending on the particular circumstances, company contributions to ESOP trusts <u>may</u> qualify for relief from corporation tax under the general rules of Schedule D. But there is at best some uncertainty over entitlement to this relief; and it is clear that for ESOPs wishing to operate in some particular circumstances relief would <u>not</u> be available. The Government believes that this uncertainty may discourage companies wishing to set up trusts of this type for the benefit of their employees. The new relief proposed will overcome this obstacle and provide more certainty for companies to distribute their shares to their employees through ESOPs.

3. The Chancellor's aim in introducing this new relief - as with the three existing employee share schemes which qualify for tax reliefs - is to encourage individual employees to own shares in the businesses in which they work. To ensure that this objective is met, the new statutory relief will depend on the trust meeting qualifying conditions. These will include requirements that:

- all employees of the company must benefit on similar terms;

- there are no beneficiaries other than employees of the company;

- shares must be acquired by the trust within a specified time, and must be distributed to employees within 7 years of acquisition;

/ a majority of the

- a majority of the trustees must be independent of the company and of those who have, or have had, a substantial interest in it.

Detailed provisions will be included in the Finance Bill.

4. ESOP trusts which meet the qualifying conditions will not qualify for any other tax relief. Such a trust will therefore be liable to income tax and capital gains in the normal way, and employees receiving shares will be liable to income tax if they pay less than market value for them. An ESOP trust may, however, operate in conjunction with a profit-sharing trust set up under the 1978 legislation, and distribute shares to employees through it. Provided the necessary conditions are met, the employees will then not be liable to income tax on any shares given to them.

/NOTES FOR EDITORS

NOTES FOR EDITORS

1. There are three separate schemes designed to encourage employee share ownership.

2. Under the 1978 all-employee profit sharing scheme, corporation tax relief is given for company contributions to a trust set up to distribute shares to employees. The trust is exempt from additional rate income tax and from capital gains tax, and shares distributed free to employees are exempt from income tax provided they are held at least 5 years. Various limits apply, for example shares must be appropriated to employees within 18 months of acquisition and there are limits on the value of the shares which can be appropriated each year to employees (these are increased in the Budget - see separate Press Release).

3. There are also two share option schemes introduced in 1980 and 1984. Under these employees can be exempt on share option gains where the qualifying conditions are met. The limits for the 1980 all-employee share option scheme are also increased in the Budget.

4. Some of the conditions for relief for a qualifying ESOP trust will be similar to those under the 1978 scheme. For example, under the 1978 scheme benefits must also be made available to all employees on similar terms.

5. As indicated in paragraph 1, a qualifying ESOP trust will be able to undertake a much wider range of activities than a trust set up under the 1978 scheme. For example, such a trust cannot borrow or make a market in shares.

[3x] 14 March 1989

PENSIONS: TAX RULES SIMPLIFIED

The Chancellor proposes in his Budget today important changes in the tax rules for pensions. These will

- simplify the rules for pension schemes, employers and employees;

- permit greater flexibility in pension provision;

- lift the administrative burden on employers and pension schemes; but

- place a limit on the amount of tax relief available.

The changes are:

* New freedom for employers to provide whatever pension they want (but without additional tax relief)

* Simplification of the tax rules for occupational pension schemes, particularly affecting those who leave or retire early

* No tax advantages for pensions which arise from earnings in excess of £60,000

* A new approach to additional voluntary contributions (AVCs), which will greatly reduce the burden on employers, and make it much easier for employees to take out freestanding AVCs

* Better arrangements for personal pensions, including higher contribution limits for those over 35, a better way of calculating lump sum benefits, and greater freedom for members to control the investment of their money.

/The restriction of tax

The restriction of tax advantages for pensions based on earnings above £60,000 a year will affect only those joining a pension scheme on or after today (14 March). Other changes will apply from Royal Assent to the Finance Act.

DETAILS OF THE PROPOSALS

1. The Chancellor is retaining the existing broad framework for the tax treatment of pensions. But within that framework a numbe of significant changes are proposed, with the objective of making the system simpler, fairer and more flexible. And, by limiting the amount of tax relief available to very high earners, the reliefs for pensions will be brought into line with most other tax incentives.

2. The Government recognises that the last few years have involved a major upheaval for the pensions industry, from tax and other changes. The Chancellor therefore intends to make no further changes this Parliament to the tax treatment of pensions.

Occupational Pensions

3. A pension scheme satisfying certain conditions about the bneefits it pays will be approved by the Inland Revenue, in which case various tax reliefs apply to it:

- relief for employer's and employees' contributions

- tax-free build-up of the fund

- lump sum benefits may be paid tax-free.

4. However, it is not possible at present for an employer to set up two schemes, one with tax relief and one without, if the combined benefits exceed the normal limits for tax approval. The result is that the limits on tax relief have come to determine the total pension an employee can receive, and the form it takes. At the same time, since the tax rules tie pensions to final salary, there is no upper limit on the tax relief involved: the higher someone's earnings, the more pension they may receive, and the more tax relief is likely to be involved.

5. The Chancellor proposes two main changes:

- First, employers will in future be able to set up "top-up" schemes, without the usual tax advantages, to provide more generous benefits than the tax rules allow. Thus the Inland Revenue will no longer effectively restrict the total pension provided.

  But, second, there will in future be a limit on the total tax relief available: for new members of pension schemes, earnings in excess of £60,000 will be disregarded for the

/purposes of calculating

purposes of calculating benefits payable from a tax approved scheme. This limit has been set at a level at which the vast majority of pension scheme members will be unaffected.

6. The result will be that, for those joining a scheme from today, the maximum pension payable from tax approved occupational scheme will be £40,000 a year (two-thirds of £60,000). Some of this may be commuted for a tax-free lump sum: the maximum lump sum will be £90,000. The figure of £60,000 will be increased annually in line with inflation.

7. These changes make it possible to introduce a number of simplifications (which also apply to those joining a scheme from today) in the detailed rules for tax approved schemes. In particular:

- a maximum two thirds final salary pension may be paid on retirement between ages 50 and 70, subject to completion of 20 years' service with an employer.

- the maximum tax-free lump sum will be the better of 3/80 of inal salary for each year of service up to 40, or 2.25 times the amount of pension before commutation.

In general these simplifications will be more generous than the present rules.

8. The tax treatment of non tax-relieved "top up" pension schemes will broadly follow from existing legislation. It will be possible to set up such schemes as soon as the Finance Act has received Royal Assent.

9. Most tax-approved pension scheme will need to amend their rules, for new members. The Finance Bill will include legislation to override their present rules, unless they choose to be excluded. This approach, which was used to implement changes made in the 1987 Budget, saves schemes a great deal of work in changing their rules and resubmitting them to the Inland Revenue for approval.

Additional Voluntary Contributions

10. The present rules for additional voluntary contributions (AVCs) to a pension scheme, and in particular those for "freestanding AVCs" (ie paid to a separate pension plan of the member's choice), date from October 1987. They went with social security legislation which gave employees the right to pay AVCs to their own scheme, or to a freestanding scheme.

11. Before an employee can pay contributions to a freestanding AVC provider, the provider has to check with the employer's scheme that maximum benefits are not likely to be exceeded. That requires co-operation from the employer's scheme, and can involve that scheme in a lot of work. Further checks must be carried out at intervals to retirement. If, despite these checks, the total

/benefits payable on

benefits payable on retirement exceed the tax limits, the employer's scheme must cut back the benefits it provides. To that extent, the employee's contributions will have been wasted.

12. The Chancellor proposes a new approach to AVCs:

- Any "excess" at retirement, or on leaving employment, will no longer go to waste. Instead, it will be returned to the employee subject to a tax charge which broadly corresponds to the tax relief received on contributions, and on build-up of funds.

- The procedure on first paying AVCs will be radically simplified. For those making payments less than £2,400 (well above the average contribution) the AVC provider will make a few simple checks: there will be no need for the employer to be involved at all.

- For larger amounts the employer will need to provide some relatively straightforward information.

- There will normally be no need for further checks until retirement (or leaving employment).

13. This new approach will be available from Royal Assent to the Finance Act. It should make it very much easier, and attractive, for employees to pay freestanding AVCs.

Personal Pensions

14. Personal pensions, available to employees and the self-employed since July 1988, may be used:

- by the self-employed

- by employees not covered by a pension scheme

- by employees who would prefer to have their own scheme rather than join their employer's

- by employees in an occupational scheme who wish to contract out of the State Earnings-related Pension Scheme (SERPS).

15. The Chancellor proposes three main changes to personal pensions:

* It will be easier, for those who wish to, to direct where their fund is invested

* The contribution limits for members over 35 will be more generous

* The calculation of the tax-free lump sum will be changed - in most cases the result will be more generous.

/17. At the same time,

16. At the same time, as with occupational pensions, a limit will be placed on tax relief, which will not be available for contributions related to earnings in excess of £60,000. This figure will be increased annually in line with inflation.

17. [Expand on personalised funds. Depends on how far we get with DTI.]

18. The new contribution limits as a percentage of earnings, with the existing limits for comparison, are:

New Limits		Existing limits	
Age	%	Age	%
35 or less	17.5	50 or less	17.5
36-45	20	51-55	20
46-50	25	56-60	22.5
51-55	30	61 or over	27.5
56 and over	35		

19. These very significant increases, which apply from 6 April 1989, are intended to help those who cannot afford to make large contributions until later in their working life, but then wish to "catch up". The changes do not apply to retirement annuity contracts.

20. Finally, the lump sum which may be taken, tax-free, from a personal pension scheme at retirement, is currently calculated as 25 per cent of the total fund built up, including any "preserved rights" (the part of a personal pension corresponding to SERPS for those who have contracted out) but excluding the value of benefits for dependants. This is illogical, since preserved rights cannot be commuted for a lump sum. And it may encourage some people to cut back on their provision for dependants, so as to maximise the tax-free lump sum. In future, therefore, the calculation will exclude preserved rights and include dependants' benefits. For the majority of people the result will be more generous than now.

Cost

21. The overall pensions package will be broadly revenue-neutral. The small yield from the £60,000 earnings limit for tax-approved pension schemes will be offset by the cost of higher contribution limits (below earnings of £60,000) for personal pensions.

/NOTES FOR EDITORS

NOTES FOR EDITORS

1. The Chancellor announced a number of changes to the taxation of pensions in his 1987 Budget, including a limit on tax free lump sums of £150,000. Then, as now, the changes:

- applied to new pension schemes, and new members of existing schemes, from Budget Day; and

- were introduced by Finance Bill legislation overriding pension scheme rules.

Compliance Cost Assessments

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

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

BUDGET CONFIDENTIAL

DRAFT PRESS RELEASE

[3X] 14 March 1989

LIFE ASSURANCE: IMPLEMENTING THE REVIEW

The Chancellor of the Exchequer proposes in his budget a two-stage programme of reform of the tax rules for life assurance companies.

The main structural measures to be included in the 1989 Finance Bill are

* a rate cut - income and capital gains attributable to policy holders to be taxed at basic rate ([25]per cent) instead of 35% and 30% respectively

* a broadening of the tax base - relief for the expenses of acquiring new life assurance business to be spread forward over seven years

  - pension and general annuity business expenses to be deductible only from pension and annuity business profits

  - other measures to put onto a more commercial basis the calculation for tax of pension business profits

* a duty abolished - life assurance policy duty to be abolished

The tax treatment of life assurance premiums and policy benefits in the hands of individuals will be unchanged. Consultation will continue on a number of more technical issues for inclusion in the 1990 Finance Bill. The whole package will come into effect from 1 January 1990 subject to special transitional provisions to assist the industry in the process of adjusting to the new regime.

Implementing the review of the taxation of life assurance

1. The proposals announced today carry forward the reform of life assurance taxation foreshadowed in an Inland Revenue consultative document published in June 1988.

2. This document set out the Government's main objectives

* an effective system

/*parity of treatment

* parity of treatment between life offices and other financial institutions

* a fair distribution of the overall tax burden on the industry between one life office and another, and between one policy holder and another

* adaptability, flexibility and simplicity so far as the complications of life assurance permit

* consistency with the obligations of life offices and the expectations of their policy holders

* recognition of freedom of services within the European Community.

3. In line with responses to the document, the Chancellor has decided against a radically new regime. He proposes instead a reform of the current rules which will preserve the existing basic framework but which tackles both the structural weaknesses identified in the consultative document and the important technical weaknesses acknowledged by the industry in its responses. Main structural changes will be implemented in the 1989 Finance Bill, followed by further consultation with the life assurance industry on more technical issues.

The package in detail

A. First stage - the 1989 Finance Bill

4. The proposals announced today for legislation in the 1989 Finance Bill affect only the corporation tax and policy duty paid by companies doing life assurance business. The tax treatment of life assurance premiums and policy benefits in the hands of individuals will be unaffected.

5. The Chancellor proposes from 1 January 1990:

i. abolition of life assurance policy duty, currently at 0.05 per cent of the sum assured;

ii. a reduced tax rate for income and gains attributable to policy holders equal to the basic income tax rate, at present 25 per cent. This will replace the current rates of 35 per cent and 30 per cent on income and gains respectively. A new formula will identify the policy holders' share of total income and gains;

iii. base-broadening changes to the rules for pension business profits, including

- a "ring-fence" around pension and other business expenses

- a consistent treatment of pension business incomings and liabilities, in line with industry accounting practice

/tax deductible

- tax-deductible reserves in line with the industry's accounting practice and regulatory requirements, but with special provision for extra reserves for tax purposes where necessary;

iv. a revised treatment for the expenses of acquiring new life assurance business. These expenses will be relieved as now but spread forward over seven years rather than allowed immediately. Transitional rules will phase in the change over four years so as progressively to reduce the proportion of expenses qualifying for immediate relief, thus -

1990: five sevenths

1991: four sevenths

1992: three sevenths

1993: two sevenths

Unrelieved expenses of 1989 and earlier years will retain their present right to immediate relief; and,

v. a number of more straightforward technical changes acknowledged by the industry in consultation as appropriate for action, including

- bringing into charge to tax miscellaneous income, such as securities underwriting fees,

- changes to limit the availability of loss and (where appropriate) group relief.

B. Second stage - further consultation on specific issues

6. The Chancellor has authorised the Inland Revenue to consult further with the industry on a number of issues identified by the review. This will be followed by legislation in 1990 to bring the whole package into effect from 1 January 1990. Topics for further consultation include:

i. identification of assets: if feasible, to apply the tax rules for different classes of business (life, pension, annuity, foreign) to the assets, income, gains and expenses actually attributable to each type of business, rather than apportioning totals as at present;

ii. the tax treatment of policy holders: to change the current "qualifying policy" and chargeable events rules so as to

- simplify them and minimise compliance and operational costs

- improve the effectiveness of the charge

/reduce

- reduce tax-induced distortions in the design of life assurance products;

iii. <u>international aspects of life assurance:</u> to improve the current rules for

- foreign branches of UK offices

- UK branches of non-resident offices

- cross-border business conducted on a "services" basis between UK offices or policy holders and counterparts in other European Community countries;

iv. <u>the treatment of reassurance business:</u> in particular to minimise the scope for erosion of the tax base and distortion of commercial decisions caused by tax-driven reassurance, cross border as well as domestic.

v. <u>the future of captive investment vehicles:</u> in the light of the new reduced tax rate on capital gains attributable to policy holders, to determine the proper tax treatment of those means currently used to shelter capital gains from a charge to tax.

[vi. <u>investment-linked business</u>: to consider further taxing this business more in line with that of unit trust investment, having regard to the changes announced today in the future tax rules for many unit trusts.]

<u>Costs and yields</u>

7. Estimates of the costs or yield of components of the package are subject to a wide margin of uncertainty. Only the firm proposals for legislation in the 1989 Finance Bill can be costed, and their effect will depend on future developments in the industry and in the markets in which it invests.

8. Subject to that, however, the package is estimated to cost about [£M] and yield about [£M] in 1990-91, assuming the basic rate is unchanged. As the transitional provisions work through, the yield will rise to a peak before falling away. The peak yield, and the ultimate cost or yield of the mature regime will depend on future tax rates as well as on developments in the industry.

NOTES FOR EDITORS

1. A review of life assurance taxation was first announced by the Chief Secretary to the Treasury, the Rt Hon John Major MP, on 8 July 1987. He said that it was intended

> "to take a general look at the tax arrangements for life assurance which have developed piecemeal over a long period" (Official Report Vol 119, Col 362).

/In June

In June 1988 the Inland Revenue published a consultative document "The Taxation of Life Assurance".

In response, various representations were made, including a comprehensive submission by the Association of British Insurers (ABI).

2. The proposals announced today for legislation in the 1989 Finance Bill affect only the corporation tax and policy duty paid by companies doing life assurance business. The tax treatment of life assurance premiums and policy benefits in the hands of individuals will be unaffected by these proposals.

The need for a review

3. The current tax rules for life assurance provide in most cases for only one charge to tax, to be made jointly on the profits, income and gains of the life company and its policy holders. The policy holders themselves in the main have no tax to pay on policy benefits received. Life offices pay corporation tax on the investment income and capital gains attributable to their life assurance business and on the profits of pension and annuity business less expenses (including commissions and other expenses of acquiring new business).

4. This unique single tax base is intended to tax both the profits for the office from running the business and the returns earned for policy holders from the investment of their premiums. The premiums themselves are not taxed. Income, whether attributable to policy holders or shareholders is taxed at 35 per cent. Gains attributable to shareholders are taxed at 35 per cent but those attributable to policy holders at 30 per cent.

5. Because the current arrangements for taxing life assurance have developed in a piecemeal fashion over very many years, they contain a large number of weaknesses and uncertainties. Some are structural and of general application; others are more technical and restricted in scope.

6. As a result, the incidence of tax between offices is very uneven. Some policy holders end up effectively bearing an unfair share of the overall tax burden.

7. Life offices may also benefit in ways not available to other forms of saving (whether made directly by individuals or through media such as unit trusts). An example is that given to the expenses incurred by the company in obtaining new business. Tax relief for these expenses is allowed immediately even though the income and gains from the investment of the premiums from the new business obtained in this way will arise only in later years. As a consequence, some companies escape paying tax entirely.

8. Other structural and technical weaknesses resulted in

- the expenses of pension (and annuity) business spilling over and being allowed for tax against the

/investment income

investment income and gains of non-pension life business;

- a depressed measure for tax purposes of the profits of pension and annuity business
- the use by some life offices of "captive unit trusts" to shelter from tax realised gains.
- the use of reassurance arrangements to reduce tax

Government's objectives

9. The Government's aim has been to find a more effective tax regime in terms of the distribution of the tax burden between life offices and its overall yield. It is also concerned that the burden of the tax on policy holders should be fairer. Among other considerations the Government want as simple a system as the complications of life assurance permit, a flexible regime which can respond in the future to changes in life assurance and the reasonable expectations of policy holders. In addition, any solution would have to tie in with the Government's non-tax policies in relation to the financial sector generally and with freedom of services in the European Community.

Options for change

10. The document put forward three main options for change

- option A: for investment-linked business only, to tax income and gains directly on the individual policy holders by reference to their own tax circumstances
- option B: to replace the current regime by a new special tax regime (dubbed in the document Schedule X), specifically designed for life assurance and formulated on actuarial principles
- option C: to reform the current rules by tackling the structural and technical weaknesses identified in the document including action to restrict the current immediate relief for life business selling costs.

11. The document also raised the question as to the tax rates which would be appropriate given the options proposed for modifying the tax base for life assurance.

Representations on the document

12. The responses of the industry and other interested parties disclosed a broad consensus (set out most comprehensively in the submission of the Association of British Insurers in October 1988) that:

i. the document had identified a number of weaknesses in the current regime which merited action or further consideration;

/ii. but these weaknesses

ii. but these weaknesses, and the industry's taxpaying record, did not justify a radical change to the current regime;

iii. and further consultation was essential before any package of reform was implemented;

iv. so option C was the appropriate approach; without, however, any restriction to the current immediate relief for new business acquisition expenses or accelerating the charge on capital gains.

Government's decisions

13. On these main points raised by the industry, the Chancellor's decision, expressed in his Budget announcements, has been

- to choose option C

- to legislate immediately on the structural issues with most impact on the life assurance tax base: in particular, relief for new business acquisition expenses will be spread forward over seven years, (although this change will be phased in gradually); and the expenses of pension ad general annuity business to be set against pension and annuity business profits only

- to put the calculation of for tax pension business profits onto a more commercial basis

- to cut the tax rate on income and gains attributable to policy holders initially to the basic income tax rate.

- to undertake further consultations on specific technical issues, and to defer implementation of the package as a whole until January 1990.

Compliance cost assessments

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

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

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INLAND REVENUE
Press Release

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

[3X] 14 March 1989

CHANGES IN THE TAX TREATMENT OF RELOCATION PAYMENTS TO EMPLOYEES

The Chancellor proposes in his Budget changes to the tax reliefs currently available under two Extra-Statutory Concessions for the expenses of employees who have to move home with their jobs.

These are:

- to provide, on broadly the same basis as the present extra-statutory concession, a statutory relief for removal expenses which employers either pay or reimburse.

- to withdraw relief for additional housing cost payments made by employers for moves to more expensive housing areas.

Subject to certain transitional arrangements, the changes take effect from 6 April 1989.

DETAILS OF THE CHANGES

Background to the Chancellor's proposals

1. The withdrawal of the relief for additional housing cost payments reflects the Chancellor's concern that the relief has tended to reduce market pressures on employers to relocate to areas where housing costs are lower and has contributed to house price increases in already high-priced areas, such as the South East.

2. Tax relief for removal expenses paid by employers for job related moves will, on the other hand, continue to play an important role in encouraging job mobility and job relocation. For this reason the Chancellor believes it should be retained.

/3. The relief for

3. The relief for removal expenses has existed for over 40 years, but many more employees now benefit from it than in earlier years. Consequently, although generally well known, it is no longer appropriate that the relief should continue on an extra-statutory basis. Appropriate provisions will therefore be included in the Finance Bill.

Relief for removal expenses

4. Under the terms of Extra Statutory Concession A5 (a) and (b) employees are not taxed on certain removal expenses which an employer pays or reimburses if they have to change residence either as a result of a job transfer with the existing employer or to take up a new employment. Relief is available only where it would be unreasonable to expect the employee to work at the new location without moving nearer to it and provided the employee has disposed of any interest in the home at the old location.

Finance Bill proposals

5. The Chancellor proposes that these conditions and the reliefs for removal expenses currently available under Extra-Statutory Concession A5 (a) and (b) should be broadly matched in the statutory relief. The detailed provisions in the Finance Bill will take effect in relation to qualifying expenditure paid or reimbursed by employers on or after 6 April 1989.

6. The categories of removal expenses to be covered by the proposed statutory relief are:

- the costs of selling the old, and purchasing the new, home. For example, legal fees, stamp duty, estate agents fees.

- the costs of removing furniture and effects

- travelling and subsistence costs incurred in connection with the move, for example, by employees and their families in finding a home at the new location and the cost of temporary accomodation at the new location before a permanent move.

- bridging loan interest. The relief will remove any beneficial loan charge arising under Section 160 Income and Corporation Taxes Act 1988 in relation to the provision by the employer of cheap or interest free bridging loan finance.

- costs relating to the provision of replacement items such as carpets and curtains which are not suitable for removal to the new home.

/7. In some instances,

7. In some instances, for example in relation to payments in certain limited circumstances for capital losses incurred by employees on their old homes, employers' removal schemes may provide for the reimbursement or payment of costs which tax offices have in the past accepted as within the scope of the concession, but which will not, in future, be covered by the statutory relief. Under transitional arrangements, however, reimbursement of any such costs on or after 6 April 1989 will continue to qualify for extra statutory tax relief provided

- the employee has entered into a commitment to move before 6 April and

- the job in the new location is started before 1 July 1989

8. An employer making payments on or after 6 April 1989 which are not exempt under the proposed statutory relief, or under the transitional arrangements, should deduct tax from them under PAYE. All reimbursed expenses (except those covered by a dispensation) and taxable benefits must continue to be detailed on form P11D after the end of the year. This should include details of any taxable benefits provided indirectly by, for instance, a relocation company.

Withdrawal of relief for additional housing cost payments

9. Extra Statutory Concession A67 exempts from tax certain payments to employees as contributions to the additional housing costs (eg increased mortgage interest or rent) incurred as a result of moving with their jobs to more expensive housing areas. Tax relief is available only when payments are payable for a limited period, reduce year by year and provided that in total they do not exceed a prescribed maximum. The maximum has varied from time to time in line with changes to the amount payable to civil servants under their Additional Housing Costs Allowance. The present maximum, which has applied since 1 February 1989, is £21210.

10. At the Chancellor's request, the Board of Inland Revenue will withdraw this Extra-Statutory Concession for payments made on or after 6 April 1989. Under transitional arrangements, however, tax relief will not be withdrawn from those employees who before 6 April 1989:

- already receive payments qualifying for tax relief under the extra statutory concession.

- have entered into a commitment to move with their jobs to a more expensive housing area provided that the job at the new location is started before 1 July 1989.

11. Payments will only qualify for relief under these transitional arrangements if the conditions of ESC A67, as published in the 1988 edition of the Inland Revenue booklet IRI, are satisfied. However, the limit on the maximum amount payable

/ tax free will no

tax free will no longer be linked to future changes in the maximum payable in the Civil Service. Instead, the tax free limit will be frozen at the limit applying on 6 April 1989. As before, payments to civil servants will be taxed on the same basis as payments to employees generally.

12. Employers should deduct tax under PAYE from payments to employees who commit themselves to moves on or after 6 April 1989, or who do not satisfy the transitional arrangements.

13. Since the present tax relief for additional housing cost payments is an extra-statutory concession, Finance Bill legislation is not required for this change.

Notes for Editors

1. Full details of both Extra-Statutory Concessions A5 and A67 are available in the 1988 edition of the Inland Revenue's booklet IRI - 'Inland Revenue Extra-Statutory Concessions'. Copies of the booklet are available from the Inland Revenue, Public Enquiry Room, West Wing, Somerset House, London WC2R 1LB.

Compliance Cost Assessment

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

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

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INLAND REVENUE
Press Release

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

[3x]

14 March 1989

INHERITANCE TAX

The Chancellor proposes in his Budget to

- raise the threshold for inheritance tax from £110,000 to £118,000

- limit the circumstances in which redistribution of estates by beneficiaries have retrospective effect for inheritance tax.

DETAILS

Threshold

1. The inheritance tax threshold rises in line with the Retail Prices Index (RPI) increase for the year to the previous December (rounded up to the next £1,000) unless Parliament decides otherwise. Between December 1987 and December 1988 the RPI increased by 6.8% per cent. This raises the present threshold from £110,000 to £118,000.

2. The Treasury are today making a Statutory Instrument setting out the new threshold. It will apply to transfers made on or after 6 April 1989. There is no change to the rate of inheritance tax (currently 40%).

3. The estimated cost of indexation is £35 million for 1988-89 and for 1990-91, £70 million.

Instruments of Variation

4 At present, if the parties so elect, retrospective effect for inheritance tax purposes is given to rearrangements of estates made within two years of death by the beneficiaries for any purpose. The provision was introduced originally to enable estates to benefit from the (then) new spouse exemption. It has achieved that purpose and is being increasingly exploited to avoid inheritancee tax.

/ 5. In future

5. In future rearrangements will continue to be effective for inheritance tax only if made by:

- disclaimer of benefits under wills, intestacies or Scottish legal rights; or

- Court Orders making adequate provision for the deceased's dependants; or

- written variations by the beneficiaries themselves making adequate provision for the deceased's dependants that could be ordered by the Court.

The changes will apply to deaths which occur on or after Royal Assent.

The estimated yield from the change is £5 million for 1989-90, and for 1990-91, £15 million.

TEXT SUBMITTED TO FST 20 FEB (MR CALDER)

[3x] 14 March 1989

INTEREST AND CURRENCY SWAPS

As part of the Chancellor's budget proposals, the Inland Revenue is publishing today:

- o a consultative document setting out a possible new statutory scheme of relief for swap fees
- o an extra statutory concession to apply pending the introduction of new legislation.

The aim is to make it easier for a wider range of firms to take part in the growing market for interest and currency swaps (financial instruments which enable firms to diversify their interest and currency exposures).

Under present practice relief for swap fees is allowed but in some cases relief is conditional upon tax being deducted at source. But there is no requirement to deduct tax where swap fees are paid to or by a recognised UK bank in the course of its trade. Representations have been made that this practice discriminates unfairly against non bank operators in the UK swaps market. It has in any case become clear that the practice is extra statutory.

As a short term measure the Chancellor has authorised the Inland Revenue to continue its existing practice modified so that relief for swap fees paid to or by a UK swaps dealer will be allowed in exactly the same way as for swap fees paid to or by a UK bank. For the longer term, the consultative document sets out a possible new statutory scheme of relief, on which comments from interested parties are invited by 30 June 1989.

/CONSULTATIVE DOCUMENT

CONSULTATIVE DOCUMENT

1. Under the scheme set out in the consultative document relief, with no requirement to deduct tax, would be allowed for all swap fees, by whomever paid, subject to certain restrictions designed to protect the Exchequer from possible abuse. This would not restrict the availability of relief for swap fees paid for genuine commercial purposes which already exists. On the contrary the object of the legislation would be to facilitate use of swaps both by making the tax treatment clearer and by removing the requirement to deduct tax in most cases.

2. As well as recurrent fees, swaps often involve an initial arrangement fee. Where recurrent fees would be deductible, this initial fee would also be deductible under the new scheme, as if it were an incidental cost of obtaining loan finance.

3. Copies of the consultative document may be obtained by calling at or writing to the Inland Revenue Reference Room, Room 8 New Wing, Somerset House, Strand, London WC2R 1LB. The cost of the document is £1.10 (including postage); payment should be made by cheque or postal order (payable to "Inland Revenue") or in cash. Postage stamps cannot be accepted in payment.

EXTRA-STATUTORY CONCESSION

4. The text of the extra-statutory concession is as follows:

> "Where annual swap fees are not deductible in the computation of trading income under strict law the net fees paid will be treated as if they were annual payments for the purpose of computing Corporation Tax profits. Where such fees are paid by or to a recognised UK bank or swaps dealer in the ordinary course of its trade, deduction of the fees as a charge will not be conditional upon tax having been deducted and accounted for to the Inland Revenue. A recognised UK bank is a company which is recognised by the Inland Revenue as a bank for the purposes of Section 349 Income and Corporation Taxes Act 1988. A recognised UK swaps dealer is a company which is either listed by the Bank of England as an exempted person under Section 43 Financial Services Act 1986 or authorised as a member of The Securities Association to carry on investment business; and which is confirmed by the Bank of England or The Securities Association to be entering swaps as part of its regular business activity."

5. Companies wishing to be recognised as swap dealers for the purposes of the interim Inland Revenue concession should write to the Bank of England or to The Securities Association along the lines of the specimen letters below.

/Companies lead

Companies lead regulated by the Bank of England

Mr I Bond
Wholesale Markets Supervision Division
Bank of England
Threadneedle Street
London
EC2R 8AH

SWAP FEES - INLAND REVENUE CONCESSION

On behalf of XYZ Limited, I hereby authorise you to certify to the Inland Revenue that XYZ Limit has been listed as an exempt person under Section 43 Financial Services Act 1986 and is known by you to be entering swap agreements as part of its regular business activities.

Companies lead regulated by The Securities Association

Mr C Woodburn
Head of Financial Regulation
The Securities Association Limited
The Stock Exchange Building
London
EC2N 1EQ

SWAP FEES - INLAND REVENUE CONCESSION

On behalf of XYZ Limited, I hereby authorise you to certify to the Inland Revenue that XYZ Limited is authorised as a member of The Securities Association to carry on investment business and is known by The Securities Association to be entering swap agreements as part of its regular business activities.

6. On receipt of the required certificate from the Bank of England or The Securities Association the Inland Revenue will write to the company concerned confirming that it is recognised as a swaps dealer for the purpose of this concession.

/NOTES FOR EDITORS

NOTES FOR EDITORS

1. Swaps are fixed term agreements designed to exploit the different ratings in different financial markets of two counterparties with complementary needs. For example A may be able to raise fixed rate finance at a lower rate than B but may want floating rate finance where he enjoys no such advantage; while B wants fixed rate finance. A will therefore raise a fixed rate loan while B raises a floating rate loan, and the two parties will enter a swap under which A pays to B sums based on floating rates and receives from B sums based on fixed rates. The sums are set so as to share the benefit of A's better credit rating in the fixed rate market and each party effectively ends up with the kind of finance it wants at a lower cost than would otherwise have been obtainable. Swaps are used in both the interest and currency markets, often with a bank or financial dealer as intermediary, and they often perform a hedging function for companies. The volume of swaps has increased considerably over recent years and they represent a major activity in the financial markets.

2. Under existing law it is doubtful whether many swap payments are deductible for tax purposes at all. However, Inland Revenue practice, now formalised in this extra statutory concession, has been to accept that they are deductible as annual payments in computing the payer's tax liability but to require tax to be deducted before they are paid to the counter party unless one of the parties is a recognised bank for the purposes of paying interest without deduction of tax. This practice is now being extended to those swaps where one or other party is a swap trader and is approved under financial services regulations by the Bank of England or The Securities Association. Under the legislation proposed in the consultative document swap payments by all parties would be payable without deduction of tax subject to certain safeguards to protect the Exchequer.

3. An extra-statutory tax concession is a relaxation which gives the taxpayer a reduction in tax liability to which he is not entitled under the strict letter of the law. Most concessions are made to deal with what are, on the whole, minor or transitory anomalies under the legislation and to meet cases of hardship at the margins of the code where a statutory remedy would be difficult to devise or would run to a length out of proportion to the intrinsic importance of the matter.

4. Inland Revenue Extra-Statutory Concessions are of general application, but in a particular case there may be special circumstances which must be taken into account in considering the application of the concession. A concession will not be given in any case where an attempt is made to use it for tax avoidance.

5. Inland Revenue concessions are published in the booklet IR 1 which is available free from tax offices. The concession published today will be included in the next edition of the booklet (unless there is legislation before this is published).

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RELOCATION EXPENSES

I have two proposals relating to the tax treatment of payments which employers make to employees when they need to move house because they are required to work elsewhere. First, I have decided to introduce a statutory relief for ~~[illegible]~~ incidental ~~[illegible]~~ removal costs which will broadly replace a long-standing ~~[illegible]~~ extra-statutory Inland Revenue concession. This will put an ~~importa~~ important relief on a proper footing. But, second, I have also decided that the extra-statutory concession which at present exempts housing subsidies when the move is to a higher cost ~~ta~~ area should be withdrawn since it reduces the pressures on employers to relocate to cheaper areas and ~~[illegible]~~ exacerbates house price increases in already expensive areas.

a nasty ought to go in.

Peter Lewis.

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B.L.O.

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SHARE OWNERSHIP

Introduction

I place first in my Budget measures to encourage wider share ownership. Over the last 10 years the number of shareholders has risen from X to Y; and with this increase has come a greater sense of identification with British industry. [Survey results]

2. Exactly three years ago I introduced the Personal Equity Plan - a radical new scheme to encourage investment in British equities. In the first two years that the scheme has been in operation more than ~~350,000~~ 375,000 plans have been taken out. This despite the stock market crash. I now have a number of improvements to propose.

AWC
AWK

3. First, I propose to raise the limit on the amounts that can be invested in unit and investment trusts. It will rise from £750 to £2,400 a year. Unit and investment trusts are a good introduction to the equity market for smaller investors, and I want to encourage them. ~~This increase will~~ apply only to unit and investment trusts which invest mainly in UK equities.

One of the original intentions of the scheme was to help British industry, so I propose that where a PEP investment is in a unit trust or investment trust, the trust itself should

4. Second, I propose to raise the overall PEP limit from £3000 to £4,800.

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Third

5. ~~I also~~ intend to make it ~~possible~~ easier for PEP holders who apply for new share issues (including privatisations) ~~to put their resulting allocation straight into their PEP, provided this does not breach the overall limit.~~

Furthermore

6. ~~Third,~~ I propose to ~~abolish~~ a number of ~~restrictions~~ on ~~PEPs, and to~~ simplify ~~them as much as possible.~~

the scheme in a number of ways, making it more flexible, more directed to small & new investors and cheaper to administer.

CWC
AWK

~~7. I propose to do away with the rule that PEPs must be held for a full year; if investors choose to cash in their PEPs within a year of purchase, they will, in future be able to do so without tax penalty. I also propose to abolish the rules governing the amount of an investment that may be held in cash. Instead, interest on cash held in PEPs will, in future, be subject to composite rate tax.~~

~~8. Finally, I intend to move the PEP year from a calendar to a fiscal year basis. It has become clear that this would be more convenient for all concerned. I therefore intend that the next PEP year will start on 6 April. Anyone who has taken out a plan already in 1989 will also be able to take one out in the new PEP year.~~

9. ~~Taken together, these changes will make PEPs simpler to administer and more attractive to first time~~

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[even more attractive

~~investors.~~ I am confident that the ~~package~~ will lead to a considerable increase in PEP take up, and a substantial widening and deepening in share ownership.

ML
AWK

10. Our measures to encourage employee share schemes have also had a major impact in widening share ownership. The number of approved all - employee share schemes has risen from 30 in 1979 to almost 1600 today, ~~covering~~ around 1¼ million employees, and involving shares worth over £4 billion.

benefitting

11. This year I have a number of further improvements to the employee share legislation to propose.

PK
DOF

12. I propose to raise the limits on the all-employee 1978 profit sharing scheme and on the 1980 SAYE option scheme ~~since 1984.~~ The limit on the annual value of shares which can be given income tax-free to employees under the 1978 scheme, will rise from £1,250 ~~or 10% of salary, subject to an overall limit of £5,000, to £2,000 or 10% salary, subject to a limit of £6,000. [This will be of particular benefit to lower paid employees.]~~

to 2,000, and, for the alternative limit of 10% of salary, the ceiling will be raised from £5,000 to £6,000

13. I also intend to raise the maximum monthly savings limit for the all-employee SAYE scheme from £100 to £150. [And I propose to increase the maximum discount from market value at which options can be granted from 10 per cent to 20 per cent.]

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14. These changes should give a substantial further boost to existing share schemes.

15. Employee share ownership plans - known as ESOPs - They provide a new route to employee share ownership ~~are a new form of employee share ownership, which~~ have had much recent publicity. ~~[Explain what's new about them]~~ but uncertainty about their tax position may be hindering their development.

16. A number have already been put in place in the UK. ~~To encourage their development,~~ Accordingly, I propose to introduce a provision making it clear that ~~new tax relief for~~ contributions to ESOPs ~~employer share trusts provided they~~ which meet certain requirements, designed to ensure that their shares are placed in the hands of employees within a reasonable time, qualify for corporation tax relief. I hope that, as a result, more firms will be encouraged to consider establishing ESOPs.

[17. I have one further change to propose which will benefit conventional employee share schemes, ESOPs, and profit-related pay schemes alike. I propose to modify the so-called material interest tests where ~~companies~~ trusts have been established ~~trusts~~ to acquire ~~their~~ shares in the company for the benefit of ~~their~~ employees. These tests are designed to exclude from tax relief employees who already have a significant interest in the company. Sometimes, however, the present rules can exclude

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(who have only a remote or minimal interest.) (ease the position

employees ~~too~~. The changes I propose will ~~ensure that only those employees who have a significant material interest in the company will be excluded in future.~~]

OK

Unit trusts

18. ~~As I mentioned a moment ago,~~ unit trusts have a valuable role to play in providing, for many people, the first introduction to direct investment and share ownership. I therefore consider it desirable to remove an anomaly which means that the tax system bears unduly harshly on unit trust investors, compared with other forms of direct investment.

SECRET

✓ Altered.

MAJ
AGN

19. Normally a unit trust investor pays the same tax on dividends and capital gains as someone who had invested in the same shares or securities independently. But if the trust invests in gilts or other securities, and is not an all-gilt trust, it has to pay corporation tax on the income, so the saver ends up bearing tax at 35 per cent, rather than 25 per cent.

B.I.O.

20. I have therefore decided that as from 1 January 1990, the Corporation Tax rate on unit trusts should be cut from 35 per cent to 25 per cent. [Unit holders' CGT position will be unaffected, as will the additional income tax paid by higher rate taxpayers.

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And ~~rules will~~ be introduced to prevent corporate investors using this change as a tax shelter.]

MHJ
Alan

21. This reduction in the tax rate on unit trusts will incidentally have the beneficial effect of removing the competitive disadvantage which UK mixed unit trusts would otherwise have faced in the near future, when firms from other EC countries acquire the right to sell collective investment vehicles in the UK.

Stamp duty

22. I have one further measure to propose in this context.

CWC
MAH

23. In my 1984 Budget, I was able to reduce the 2 per cent stamp duty on share transactions to 1 per cent. I halved it again to ½ per cent in 1986. I have now decided to abolish it altogether, (along with the associated stamp duty reserve tax) with effect from 1 April 1990. [~~to coincide with the introduction of paperless transactions on the Stock Exchange.~~] These measures will remove a barrier to ownership, and eliminate an aspect of the tax system which puts the British financial services sector at a disadvantage compared with some of its competitors.

This measure continues the process of simplifying the tax system. It will aid the changeover to [less costly] paperless transactions and further encourage wider share ownership. [It will also enable the British financial services sector to gear itself up to the challenges of the 1990s.] And stamp duty on shares ~~will be~~ is the 6th major tax I have abolished since becoming Chancellor.

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Tax reform

24. The measures I have just announced will further strengthen the growing trend of wider and deeper share ownership. They will remove a major disincentive to the more direct forms of saving. And they build on the targeted incentives that already exist to promote ownership.

SECRET

PL
CWC
AWK

[25. As such, their longer-term effect may be to redress an imbalance that arguably exists in the pattern of savings in the UK, which, in the last 30 years has become increasingly dominated by institutional forms of saving, such as life assurance and pensions. Throughout our time in government, our approach to the provision and taxation of savings has had two common threads. First, as far as possible, we have been concerned to ensure maximum choice for individuals. Secondly, we have tried to ensure that choices are distorted as little as possible by the tax system.

B.L.O.

26. This is not an area where one can make great changes overnight. Nonetheless we have made considerable progress in improving choice, and reforming the tax system in step. Today, I have more progress to announce.

SECRET

Pensions

27. I turn first to pensions.

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28. The Government record is one of widening pensions' choice and encouraging private provision. We have reformed SERPS, improved the rights of pension scheme members and, most important of all, introduced personal pensions. These have been a great success with a million taken out in the first 6 months of operation.

NB this figure includes PP, taken out by self-employed (who formerly would have bought RAs) – (later figs available in a week or two)

29. But there is still scope for further widening of choice, deregulation of the tax system. I have a number of changes to propose.

CWC
AWK

37 (Finally,)
~~30~~. ~~First,~~ I propose to make it easier for people in personal pension schemes to manage their own investments. Pension savings are highly institutionalised with scheme members having little involvement in investment policy. This measure will encourage greater individual involvement in pension plans [~~as IRAs have in US~~].

33 (The introduction of this earnings limit also enables me to)
~~31~~. [~~I also~~] propose a number of changes to] simplify and improve the rules for occupational pension schemes, in particular to improve the conditions on which people can take early retirement.

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This will remove the penalty on good investment performance and will allow for much simpler rules for the payment of AVCs. These changes will add a further impetus to saving through AVCs.

34 ~~32~~. And I intend to simplify very substantially the rules for additional voluntary contributions. At present, if AVCs perform very well, occupational pensions may have to be reduced (to keep total benefits within limits). In future any surplus contributions will be returned to employees subject to special tax charge.

CWC
AWK

[To remove this anomaly, and place pension provision on a more rational and flexible basis,] I have two main proposals. First,

30 ~~33. And finally I propose to rectify the~~ (It is at present a strange) anomaly ~~whereby~~ that limits for tax relief have come to determine limits on pensions paid. With a tax relief as generous as that for pensions, it is clearly essential that there should be some upper limit. But that is no reason for tax law effectively ~~to~~ constraining the size of the pension an employer may choose to provide. ~~Accordingly,~~ I propose that employers should ~~now~~ be able to set up "top-up" schemes for their employers, with no limits on benefits but without any special tax privileges. [In future, if employers wish to offer, for example, pensions above 2/3rds final salary, or fast accrual for late entrants, they will be free to do so.]

~~Rationale for limits~~

31 Second, ~~34.~~ With employers able to pay whatever pensions they like, it is clearly appropriate to put a cap on the amount of relief. ~~All~~ Most other reliefs - BES, PEPS, mortgage interest - are subject to a ceiling.

Not [illegible] [illegible] relief

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32

~~35.~~ I therefore propose to build on my 1987 changes by introducing ~~making final salary schemes subject to~~ a cash limit on pensions paid from tax approved occupational pension schemes. This will be based on earnings of £60,000 a year. This is consistent with a ~~privileged~~ pension of £40,000 a year or a tax free lump sum of £90,000 ~~a year~~. I intend that this earnings limit should be indexed to prices and that these changes should apply to members joining new or existing schemes on or after Budget day.

[~~36. It is clear that unfettered relief for pensions~~ savings distorts savings choice. People pay less tax if they save through pension funds than if they invest directly in equities or put money in building society They are allowed tax relief on contributions. The returns are untaxed in the hands of pension funds, though tax is paid on the pensions when received. And savings financing pension lump sums escape tax altogether. They are not taxed on the way in or out. This is anomalous by any standard.

CWC
AWK

37. With the 1988 reductions in top rate of tax, there is less need for tax breaks for higher paid. They can afford to save out of taxed income, by investing directly in equities etc.]

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make them more attractive

5
~~38~~. I also propose changes to the rules for personal pensions, ~~to enable them to equal the benefits of final salary schemes~~. The self-employed are often unable to contribute to personal pension schemes until late in life, at which point they may fall foul of contributions limits. I therefore propose to increase substantially the contribution limits for personal pension scheme members over ~~50~~ 35.

Is this right — or just clarify pay?

6
~~39~~. This will improve the position of PPs relative to ~~final salary~~ occupational schemes. Indeed it will pay some employees to leave ~~FS~~ occupational schemes and take out personal pensions. ~~However~~ At the same time I ~~also~~ propose ~~to subject to~~ an overall cash limit on contributions based on earnings of £60,000. Like the ~~final salary~~ occupational scheme limit, the personal pension cash limit will be tied to prices.

CWC

AWK

Conclusion

37
~~40~~. These proposals represent an important long-term reform of the pensions tax system. However, the effects will take time to come through. Because of the level at which the limits will be set only a few thousand high paid employees

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will be affected at first, ~~rising to~~ the number will rise, perhaps to as many as 50,000 by the end of the century. But that is how it should be. ~~There is no question of undermining pension saving by a huge upheaval.~~ On the other hand, the new limits will not affect the vast majority of ordinary scheme members.

41. The long term effect (of all these changes, taken together), ~~though,~~ (, over time,) is likely to be considerable. It will result in ~~a~~ major ~~turnround~~ improvements in the balance of pension provision ~~savings in the course of 21st century.~~

CWC
AWK

42. The last few years have seen a large number of pension reforms. It is time they were allowed to settle down. Accordingly, I do not plan any further (tax) changes in this Parliament.

LIFE ASSURANCE

43. I now turn to the taxation of life assurance. In July last year, the Revenue issued a consultative document on the taxation of Life Assurance. It pointed to some important defects in the present tax regime and outlined possible changes.

KVD
MDRH

44. There has now been a very full process of consultation and I have considered the representations made very carefully. My conclusions are as follows.

45. The Life Assurance industry is unique, not just in the product it provides but also in the tax regime which

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applies to it. The policyholder's returns and the shareholder's profits are not, as in a normal business, taxed individually but jointly by taxing the funds held by the Life Offices on their policyholders' and shareholders' behalf.

46. It is a peculiarity of this system that relief is given "up front" for expenses incurred on the policyholder's behalf. This has two distortive effects: first it means that policyholders receive a tax break - "up front" relief on initial costs which would not be available if they invested directly in shares. And it distorts the incidence of tax as between one Life Fund and another. The system unduly favours the rapidly expanding Life Office where tax can be deferred for many years.

KVD
MDRH

[47. I have considered very carefully whether this problem is best resolved by improving the existing system; or by adopting a completely new basis of taxation for the Life Office. I have concluded that the defects can be dealt with within the present regime.]

48. I shall be bringing forward in the Finance Bill measures which will mean that in future, relief for the initial expenses associated with new policies will be spread forward so that one-seventh only is available for relief against tax in each of the first and subsequent

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six years. Taken on its own this would increase the tax liability of life offices, indeed quite markedly in the early years. But this effect will be eased by phasing provisions to give the industry time to adjust to the new regime, and by other measures which I have to propose.

49. But first I have one other proposal which will also restrict the amount of relief available. At present nothing requires life offices to keep their pensions and life assurance businesses separate. So some Life Offices can set the unrelieved expenses on the pensions side of their business against the income and realised gains of Life Funds. This means that their pensions profits enjoy unduly favourable tax treatment. The Finance Bill will include provisions to end this anomaly.

KUD
MDRH

50. [The Finance Bill will also include a number of lesser measures, giving a better specification of charge, and bringing into charge miscellaneous items of income which currently fall outside the tax net].

51. These measures would cover the main part of the proposals discussed in last year's consultative document. The Finance Bill will provide for them to be introduced from 1 January 1990. But there are other, more technical items which require further consultation.

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Any legislative changes following that consultation will be included in the 1990 Finance Bill.

52. These measures give a fairer basis for the taxation of the Life Companies. In isolation they would increase the long-run tax burden by £[ ]m. However, here as throughout the tax system, widening the tax base allows tax rates to be reduced. This I propose to do.

KVD
MDRH

53. At present, Life Funds pay tax at 35 per cent on unfranked investment income and 30 per cent on realised capital gains of their policyholders. As from 1 April 1990, these rates will be reduced to 25 per cent. Life Assurance Premium Duty will be abolished from the same date. Together these will be worth £[ ]m to Life Assurance in a full year. On top of this, the industry, like all those who deal in shares, will benefit from the abolition of stamp duty to the tune of X a year.

gain a substantial

if pursued say £100m

54. [Net effect of these changes on the industry as a whole.]

PL
CWC
KVD

[A conclusion still needed for this tax reform section]

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ALC

55. I now have a number of other, less daunting, reforms to propose. Most of them represent simplifications and deregulation.

[of a number of reforms representing simplification and deregulation]

56. The <u>first</u> is a piece of tidying up which follows from the major reforms of income and capital gains tax in my last Budget.

DYP
MFC

57. My reforms of capital gains tax have produced a fairer and more neutral system. However they have exacerbated one existing anomaly, which I now propose to remove. The holdover relief for gifts postpones tax on past gains made by the giver until the recipient disposes of the asset. When we still had capital transfer tax on lifetime transfers, this relief was necessary to avoid a double capital tax charge. But this need no longer remains. Moreover, now that a single rate of capital gains tax has been replaced by 2 rates aligned with income tax, the gifts relief is open to exploitation by higher rate taxpayers wishing to avoid paying CGT at their marginal rate. I therefore propose to abolish the general gifts relief. There are some circumstances where tax deferral continues to be justified for wider ~~economic~~ reasons, notably in the case of gifts of business and heritage assets and gifts to charities. For these cases, the relief will be retained.

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[58. Still on capital gains tax, I propose to change the tax treatment of certain bonds so as to simplify the tax rules and to prevent a loss of yield by the conversion of income into capital gains.

~~MF~~
CWC
DYP
B²O'C
MFC

59. First I propose to exempt from capital gains tax, all sterling non-convertible corporate bonds. This will prevent exploitation of indexation relief to manufacture capital losses.

60. Second, I propose to put the tax rules for deep discount bonds onto a simpler and more effective basis. Where the return on a bond can be ~~mathematically~~ split into capital gains and income then those two elements will be taxed separately. Where the return on a bond cannot be so split then it will be taxed as income.

61. These changes will apply to gilts except that ~~although~~ existing issues of deep discount gilts will continue to be taxed under the existing rules.]

DYP
MFC

62. Last year, by rebasing capital gains tax to 1982, I completed the process of taking purely paper gains out of tax. At the same time I reduced the exempt threshold as it no longer needed to compensate for the lack of indexation relief for pre-1982 gains. Its only remaining function is to exclude small gains from the tax. I judge that it still performs that

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Paragraph 64

There is now a notoriously complex set of rules providing for the so-called "apportionment" of close companies' income. There is no longer any need for these rules in the case of ordinary trading businesses, and no justification for retaining this apparatus to deal with the ~~special problem~~ special risk of personal investments being put into a closely controlled investment company so as to avoid tax.

I propose therefore to abolish the close company apportionment rules. I am sure that many hundreds of thousands of small businesses will welcome the removal of this burden.

There will be special - and relatively simple - rules for closely controlled investment companies, and a special rate of corporation tax at 40 per cent for such a company which does not distribute its profits.

Julia

I am content
22/2

Here = further attempted revision.
Any comments pl?

CJ
22.2.

[illegible]

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function perfectly adequately and I therefore propose to maintain it at its current level of £5000. Following independent taxation in 1990, husbands and wives will, of course, benefit from a double exemption.

63. The taxation of close companies is another area ripe for simplification. Again this has been made possible by last year's reform of personal tax.

New paragraph
I

EMcG
JHR

64. Under ~~the current rules~~ undistributed income and gains of close companies are apportioned among its shareholders in order to determine tax payable. The rules governing this are an exceptionally complicated area of the tax system, running to some 20 pages of legislation. I therefore propose to abolish apportionment rules for close companies. In future income and gains of a close company will be subject to normal corporation tax rules, subject only to simple rules to prevent abuse. This reform will represent a major simplification of the tax affairs of a great many small businesses.

No tax at 40 unless profits/gains substantially distributed

65. The next set of deregulation measures I have to propose will also benefit the small business sector. These measures relate to the operation of VAT.

66. At present, traders are normally liable to VAT on their sales whether or not their customers pay them.

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Bad debt relief can be claimed only where the debtor has become insolvent. This takes far too long. I therefore propose that from 1 August, all debts which are over eighteen months old will qualify for bad debt relief. This will be of great help, from both an administrative and financial point of view, to a great many businesses.

67. I also propose simpler rules to govern registration for VAT. At present there are quarterly and annual turnover thresholds, and businesses are required to look ahead to the next twelve months to see if the limits <u>might</u> be exceeded. This complication is unnecessary. As from Budget Day I propose a single rule for determining registration based on turnover in the <u>past</u> twelve months.

68. Finally, I propose to simplify the VAT default surcharge. At present this rises by stages each time a business defaults to a maximum of 30 per cent. Experience suggests that by the time a business reaches a surcharge rate of over 20 per cent, it has moved from the "won't pay" to "can't pay" category. I propose to recognise this by capping the default surcharge rate at 20 per cent.

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Schedule E

69. I propose ~~one~~ an important simplification in the income tax field . At present, under Schedule E, tax ~~assessments are done~~ is assessed on the basis not of earnings received in a year, but instead on earnings for the year - accruals rather than receipts. I propose to change this, so that in future it is assessed on a receipts basis.

PL
IF

70. For the vast majority of ordinary ~~taxpayers~~ employees this will make no difference at all, because PAYE collects tax on a receipts basis. But it will ~~greatly~~ considerably simplify the tax affairs of about half a million people, at present assessed on accruals. It will also make the tax system simpler and cheaper to administer. ~~There will be no lasting loss of revenue, but there is a transitional cost of £[X] in the first two years, offset thereafter.~~ There are transitional costs of £60 million in 1989-90 and £80 million in 1990-91, but in the long term there will be a revenue yield of about £50 million per year.

Business Taxation

~~**Corporation Tax**~~

71. I now turn to the taxation of businesses generally.

EMcG
JHR

72. It is now five years since I announced the major reform of business taxation which has given us one of the lowest corporation tax rates {in the ~~world~~}. ~~Our neutral system of business taxation, combined with low rates,~~ This has set the scene for a dramatic improvement in the performance of British firms. The reform of capital

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allowances has encouraged more efficient investment, based on real returns rather than tax advantages. And the removal of the bias against job creation has played a key role in the UK's impressive employment growth. In this healthier climate, company profitability has recovered dramatically.

EMcG
JHR

73. The system we have is clearly right, and is working well. Accordingly, I have no change to propose to the main Corporation Tax rate for ~~1988-89~~. 1989-90

74. However, at the moment, only a small minority of companies pay this main rate of 35 per cent. The remainder have no liability at all, or pay at ~~reduced~~ lower average rates, determined by the small companies' profits limits. These limits have remained unchanged since 1983. I propose now to increase them, so that the lower limit, below which companies pay at 25 per cent, will increase from £100,000 to £150,000. Above that level, to companies pay at a gradually increasing rate, until they reach the main rate threshold of £500,000. I propose to increase this, too, by 50 per cent, to £750,000.

marginal relief is available.

Add
? CGT relief for trading losses of unincorporated businesses EMcG.
MJGE

75. [I have one other minor change to ~~CT~~ business taxation. I propose to extend relief available for expenditure incurred by individuals or companies prior to their commencing trading from the present 3 years before trading

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Foreign Exchange Gains & Losses

[Finally on business taxation] I am responding to calls for change in the tax treatment of foreign exchange gains and losses. This complex issue is becoming increasingly important with the growing globalisation of business but there are major questions to be resolved before changes to the present treatment could be considered. I have therefore authorised the Inland Revenue to issue today a consultative document which explores those questions and examines the scope for legislative reform.

This is an important issue for
UK business particularly with

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EMcG
MJGE

commences to 5 years. This will benefit new ~~companies~~ businesses undertaking projects requiring long lead times.]

relief for exchange losses

Cars

PL
ERM

76. I have to set the 1989-90 car and fuel benefit scales for ~~those with~~ the private use of company cars. ~~For years,~~ The car scale charges have always fallen significantly short of the true value of the benefit to the employee, and in successive Budgets I have made significant progress to redress this. I intend to continue this, and to increase the car scales by a further 20 per cent for 1989-90.

[The yield will be £90 million in 1989/90 and £110 million in 1990/91.]

I propose no change to the fuel scales.

Profit Related Pay

PL
JDF

77. Two years ago, I introduced in my Budget a tax relief for Profit Related Pay Schemes, designed both to give workers a more direct sense of identification with the firms that employ them, and to promote a greater degree of pay flexibility. The current success of British firms is built on improvements in both these respects.

78. The Profit Related Pay Scheme has played its role in this process, but it is also clear that more firms are interested in launching schemes, but are not able to comply with all the present

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rules. I therefore propose to make ~~three~~ some modifications to the scheme in this year's Finance Bill. First as ~~I have~~ already announced, I intend to abolish the requirement that PRP must equal at least 5 per cent of pay.

PC
JDF

79. Second, I propose to raise the cash limit on the amount of PRP which can attract relief from £3,000 to £4,000. ~~Finally~~ Third, I propose to relax the rules ~~banning~~ preventing headquarters and other central units from using the profits of the whole company or group for their own profit calculations, as I am persuaded that this too is unnecessarily restrictive. I am confident that these modifications will ensure continued growth in the number of firms offering some element of profit related pay.

TAXES ON SPENDING

80. I now turn to taxes on spending.

81. First, VAT. I have already announced a package of significant deregulatory measures. The FB will also implement the changes necessary to comply with the ECJ's judgement on certain of the UK's zero rates, notably that on non-domestic construction. The only other change I propose to make to the coverage of VAT is to introduce a small number of extra reliefs for charities,

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Mr Isaac
BWO
22/2

Mr McIntyre
CH
22.2

Contribution for Budget Speech: Payroll Giving

The Government remain committed to a thriving and growing Voluntary Sector, and I particularly welcome the fact that interest in the payroll giving scheme has been growing steadily. About [3,400] schemes have now been set up, and [over 100,000] employees are already participating. It is encouraging to find that ~~some~~ quite a few donors are giving up to the full £240 annual limit. In order to allow scope for more generous donations and to encourage the development of payroll giving generally, I propose to [double the annual limit to £480, or £40 a month].

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of which the most important is the exemption of their fund-raising events, subject to an upper limit.

82. The main thrust of Government encouragement to charities, however, continues to be focused on the act of giving. Accordingly, I propose to increase the weekly limit for the PRG scheme from X to Y.

Beef up

VED

83. Next, I have a number of measures to propose which will greatly simplify the structure of vehicle excise duty and make it more equitable.

84. There are at present X rates of VED. I propose to reduce the number of tax classes by over 70 - a major simplification.

85. At the same time I propose to rectify anomalies in the present structure of rates. At the moment a bus or a coach has to have sixty six seats before it pays as much VED as a family car. I propose to increase the relevant rates to bring this group up to track cost.

86. There will also be increases in the rate of VED for the heaviest of the rigid HGVs so as to put them on a more equal basis with articulated HGVs.

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87. I turn now to the duty on petrol. Last year I increased the tax differential in favour of unleaded petrol to nearly 11p a gallon. This has undoubtedly helped to increase the take up of unleaded petrol.

88. But the Government is committed to phasing out leaded petrol, and progress is still too slow. Unleaded petrol still accounts for only 4 per cent of total sales, when X per cent of cars can use it without any adjustment, and most of the remainder could be adjusted to use it at very little cost.

89. One of the problems is clearly ignorance of the facts about unleaded petrol. Many people do not realise that they can already use it. And others who could cheaply have their cars converted hold back because they fear - wrongly - that after conversion their cars could no longer use leaded. Fortunately, the myths about unleaded petrol are beginning to be dispelled.

90. But I propose to do my part too, and to make sure that the market signal is clear enough. I therefore propose to reduce the tax on unleaded petrol further by something over 3p a gallon. If this reduction is passed on to consumers - and I look to the oil companies to make sure that this happens - the price of unleaded petrol will generally be about 9p a gallon below that of

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4 star. This in itself should provide a strong encouragement for 4 star users to have their cars converted.

91. However, I propose to go further by introducing a surcharge of 5p a gallon on 2 and 3 star petrol. This will bring the price of these grades broadly into line with that of 4 star. Virtually all cars which use 2 and 3 star can run on unleaded petrol without any conversion. These motorists will now have a strong incentive to change their habits. This in turn, will provide the necessary signal for more garages to stock unleaded - if necessary by freeing up a pump that formerly sold 2 star.

92. Taken together, these two duty changes will give us the largest differential between leaded and unleaded petrol of any EC country, with the exception of Denmark. I hope that we shall soon match this performance in terms of take-up of unleaded. Both these duty changes will take effect from 6.00pm tonight.

93. I have no other changes in excise duties to propose.

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INCOME TAX [to follow]

allowances

rates

[NICs]

Earnings rule

CONCLUSION AND PERORATION [to follow]

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CHANCELLOR OF THE EXCHEQUER

HONI SOIT QUI MAL Y PENSE

Ch/

A synopsis, as you asked.

Now we have decided on the earnings rule, I wonder whether there might be a case for a section on pensioners - see over - it could fit together quite well

MPW.

BUDGET SECRET – BLO

INTRODUCTION

ECONOMIC BACKGROUND

88 activity worldwide

cf Europe UK growth strong.

Problem with stats - using adjusted figures.

Manufacturing growth esp strong. Productivity, employment.

Investment.

But current account (figure) and inflation.

Prospect for 89: growth, RPI, current account.

Prospect for world economy (and risks).

Risks at home.

MEDIUM TERM

MTFS, and inflation

savings

current account

MONETARY POLICY

central role in MTFS. Interest rates (already taking effect)

and role of exchange rates

MO for 89-90

[COBO]

PUBLIC SECTOR FINANCES

role in MTFS

PSDR in 88-89

debt repayment - implications for public expenditure etc

and for funding

PSDR in 89-90 and in medium term

[illegible]

No gimmicks

Para 17 - [illegible]

[illegible]

[Investment]

Why monet[illegible] more effective ([illegible])

[illegible]

Fiscal drag

Burden of taxation

[illegible]

Balanced budget

Share conversion

appointment/last yr

??

TAX

business: CT, oil, ITV, cars and relocation, PRP, deregulation/ simplification,

savings: rationale, stamp duty, unit trusts, life assurance, pensions, PEPs, ESOPs/ESS

spending: VAT ECJ, VAT on charities, charities generally (PRG) unrelated, offsetable

pensioners: earnings rule, age allowances, [tax relief for health insurance] [CGT, IHT perhaps in this section]

Income tax

if needed at all

not

??

last yr

full last yr.

V. doubtful, tho' possible

life assce.

(though not sympathetic?)

chex.mw/docs/bs.taxont

Perks:

cars
subsidised mortgages
relocation

PRP

TAXATION SECTION

BUSINESS

Main CT rate. International comparisons? Businesses doing fine, so no major change. But small companies profits limit

Pre-trading expenditure relief (plus any other minor business changes)

Oil incrementals

ITV levy

Simplification/deregulation:

close companies
VAT package
Schedule E receipts basis

SAVINGS

Rationale. Discrimination in tax treatment of different kinds of savings. Redress in favour of ownership.

[N.B. Independent taxation and savings]

Stamp Duty

Unit trusts

Life Assurance

Pensions

Wider share ownership

PEPs
ESOPs / ESS

TAXES ON SPENDING

mention VAT ECJ stuff in passing
already announced VAT deregulation
VAT on charities

charities generally:

PRG
[national trust starter]

VED:
equity (get coaches and rigids up to track costs)
simplification (reduce number of rates)

number plates

excise duties: rationale for unleaded petrol

INCOME TAXATION

~~general introduction~~

~~residence~~

bold **CGT:**

limit
gift deferral
block avoidance - cobo tax changes, etc

[IHT?]

perks:

cars,
NICs on subsidised mortgages
relocation

possible link to ... [rent-a-room]

PRP

allowances (age allowance)'

rates

Income tax sections @ end needs to be an short as possible. Thus detachable stuff needs to be shifted to further.

all borderline for this section and could move to others

TABLE 1

SINGLE PERSONS - ANNUAL FIGURES

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

TABLE 2

MARRIFD COUPLES - ANNUAL FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
4,500	101	*2.2*	31	*0.7*	70	*1.6*
5,000	226	*4.5*	156	*3.1*	70	*1.4*
6,000	476	*7.9*	406	*6.8*	70	*1.2*
7,000	726	*10.4*	656	*9.4*	70	*1.0*
8,000	976	*12.2*	906	*11.3*	70	*0.9*
9,000	1,226	*13.6*	1,156	*12.8*	70	*0.8*
10,000	1,476	*14.8*	1,406	*14.1*	70	*0.7*
12,000	1,976	*16.5*	1,906	*15.9*	70	*0.6*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*
16,000	2,976	*18.6*	2,906	*18.2*	70	*0.4*
18,000	3,476	*19.3*	3,406	*18.9*	70	*0.4*
20,000	3,976	*19.9*	3,906	*19.5*	70	*0.4*
25,000	5,467	*21.9*	5,156	*20.6*	311	*1.2*
30,000	7,467	*24.9*	7,145	*23.8*	322	*1.1*
40,000	11,467	*28.7*	11,145	*27.9*	322	*0.8*
50,000	15,467	*30.9*	15,145	*30.3*	322	*0.6*
60,000	19,467	*32.4*	19,145	*31.9*	322	*0.5*
70,000	23,467	*33.5*	23,145	*33.1*	322	*0.5*

Calculations assume that only the husband has earned income.

TABLE 3A

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,500	80	*2.3*	25	*0.7*	55	*1.6*
4,000	205	*5.1*	150	*3.8*	55	*1.4*
5,000	455	*9.1*	400	*8.0*	55	*1.1*
6,000	705	*11.8*	650	*10.8*	55	*0.9*
7,000	955	*13.6*	900	*12.9*	55	*0.8*
8,000	1,205	*15.1*	1,150	*14.4*	55	*0.7*
9,000	1,455	*16.2*	1,400	*15.6*	55	*0.6*
10,000	1,705	*17.0*	1,650	*16.5*	55	*0.6*
11,000	2,022	*18.4*	1,900	*17.3*	122	*1.1*
12,000	2,349	*19.6*	2,225	*18.5*	124	*1.0*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	116	*2.1*	29	*0.5*	87	*1.6*
6,000	241	*4.0*	154	*2.6*	87	*1.4*
7,000	491	*7.0*	404	*5.8*	87	*1.2*
8,000	741	*9.3*	654	*8.2*	87	*1.1*
9,000	991	*11.0*	904	*10.0*	87	*1.0*
10,000	1,241	*12.4*	1,154	*11.5*	87	*0.9*
11,000	1,558	*14.2*	1,404	*12.8*	154	*1.4*
12,000	1,975	*16.5*	1,729	*14.4*	246	*2.0*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

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

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

TABLE 3B

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,500	80	*2.3*	0	*0.0*	80	*2.3*
4,000	205	*5.1*	115	*2.9*	90	*2.2*
5,000	455	*9.1*	365	*7.3*	90	*1.8*
6,000	705	*11.8*	615	*10.2*	90	*1.5*
7,000	955	*13.6*	865	*12.4*	90	*1.3*
8,000	1,205	*15.1*	1,115	*13.9*	90	*1.1*
9,000	1,455	*16.2*	1,365	*15.2*	90	*1.0*
10,000	1,705	*17.0*	1,615	*16.2*	90	*0.9*
11,000	2,022	*18.4*	1,865	*17.0*	157	*1.4*
12,000	2,349	*19.6*	2,190	*18.2*	159	*1.3*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	116	*2.1*	0	*0.0*	116	*2.1*
6,000	241	*4.0*	109	*1.8*	132	*2.2*
7,000	491	*7.0*	359	*5.1*	132	*1.9*
8,000	741	*9.3*	609	*7.6*	132	*1.6*
9,000	991	*11.0*	859	*9.5*	132	*1.5*
10,000	1,241	*12.4*	1,109	*11.1*	132	*1.3*
11,000	1,558	*14.2*	1,359	*12.4*	199	*1.8*
12,000	1,975	*16.5*	1,684	*14.0*	291	*2.4*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

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

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

TABLE 3C

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,500	48	*1.4*	0	*0.0*	48	*1.4*
4,000	172	*4.3*	115	*2.9*	57	*1.4*
5,000	422	*8.4*	365	*7.3*	57	*1.1*
6,000	672	*11.2*	615	*10.2*	57	*1.0*
7,000	922	*13.2*	865	*12.4*	57	*0.8*
8,000	1,172	*14.6*	1,115	*13.9*	57	*0.7*
9,000	1,422	*15.8*	1,365	*15.2*	57	*0.6*
10,000	1,672	*16.7*	1,615	*16.2*	57	*0.6*
11,000	1,989	*18.1*	1,865	*17.0*	124	*1.1*
12,000	2,349	*19.6*	2,190	*18.2*	159	*1.3*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	74	*1.3*	0	*0.0*	74	*1.3*
6,000	199	*3.3*	109	*1.8*	90	*1.5*
7,000	449	*6.4*	359	*5.1*	90	*1.3*
8,000	699	*8.7*	609	*7.6*	90	*1.1*
9,000	949	*10.5*	859	*9.5*	90	*1.0*
10,000	1,199	*12.0*	1,109	*11.1*	90	*0.9*
11,000	1,515	*13.8*	1,359	*12.4*	156	*1.4*
12,000	1,932	*16.1*	1,684	*14.0*	248	*2.1*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

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

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

TABLE 4

SINGLE PERSONS AND MARRIED COUPLES - WEEKLY FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
60.00	2.48	*4.1*	1.61	*2.7*	0.87	*1.4*
70.00	4.98	*7.1*	4.11	*5.9*	0.87	*1.2*
80.00	7.48	*9.4*	6.61	*8.3*	0.87	*1.1*
90.00	9.98	*11.1*	9.11	*10.1*	0.87	*1.0*
100.00	12.48	*12.5*	11.61	*11.6*	0.87	*0.9*
120.00	17.48	*14.6*	16.61	*13.8*	0.87	*0.7*
140.00	22.48	*16.1*	21.61	*15.4*	0.87	*0.6*
160.00	27.48	*17.2*	26.61	*16.6*	0.87	*0.5*
180.00	32.48	*18.0*	31.61	*17.6*	0.87	*0.5*
200.00	37.48	*18.7*	36.61	*18.3*	0.87	*0.4*
250.00	49.98	*20.0*	49.11	*19.6*	0.87	*0.3*
300.00	62.48	*20.8*	61.61	*20.5*	0.87	*0.3*
305.00	63.73	*20.9*	62.86	*20.6*	0.87	*0.3*
350.00	74.98	*21.4*	74.11	*21.2*	0.87	*0.2*
400.00	87.48	*21.9*	86.61	*21.7*	0.87	*0.2*
500.00	124.29	*24.9*	118.87	*23.8*	5.42	*1.1*
600.00	164.29	*27.4*	158.87	*26.5*	5.42	*0.9*
MARRIED COUPLES[1]						
80.00	0.31	*0.4*	0.00	*0.0*	0.31	*0.4*
90.00	2.81	*3.1*	1.47	*1.6*	1.34	*1.5*
100.00	5.31	*5.3*	3.97	*4.0*	1.34	*1.3*
120.00	10.31	*8.6*	8.97	*7.5*	1.34	*1.1*
140.00	15.31	*10.9*	13.97	*10.0*	1.34	*1.0*
160.00	20.31	*12.7*	18.97	*11.9*	1.34	*0.8*
180.00	25.31	*14.1*	23.97	*13.3*	1.34	*0.7*
200.00	30.31	*15.2*	28.97	*14.5*	1.34	*0.7*
250.00	42.81	*17.1*	41.47	*16.6*	1.34	*0.5*
300.00	55.31	*18.4*	53.97	*18.0*	1.34	*0.4*
350.00	67.81	*19.4*	66.47	*19.0*	1.34	*0.4*
400.00	80.31	*20.1*	78.97	*19.7*	1.34	*0.3*
500.00	112.83	*22.6*	106.63	*21.3*	6.20	*1.2*
600.00	152.83	*25.5*	146.63	*24.4*	6.20	*1.0*

[1] Calculations assume that only the husband has earned income.

TABLE 5A

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
70.00	2.21	*3.2*	1.15	*1.6*	1.06	*1.5*
80.00	4.71	*5.9*	3.65	*4.6*	1.06	*1.3*
90.00	7.21	*8.0*	6.15	*6.8*	1.06	*1.2*
100.00	9.71	*9.7*	8.65	*8.6*	1.06	*1.1*
120.00	14.71	*12.3*	13.65	*11.4*	1.06	*0.9*
140.00	19.71	*14.1*	18.65	*13.3*	1.06	*0.8*
160.00	24.71	*15.4*	23.65	*14.8*	1.06	*0.7*
180.00	29.71	*16.5*	28.65	*15.9*	1.06	*0.6*
200.00	34.71	*17.4*	33.65	*16.8*	1.06	*0.5*
220.00	42.40	*19.3*	38.75	*17.6*	3.65	*1.7*
240.00	47.48	*19.8*	46.25	*19.3*	1.23	*0.5*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.79	*0.8*	0.00	*0.0*	0.79	*0.8*
120.00	5.79	*4.8*	4.11	*3.4*	1.68	*1.4*
140.00	10.79	*7.7*	9.11	*6.5*	1.68	*1.2*
160.00	15.79	*9.9*	14.11	*8.8*	1.68	*1.0*
180.00	20.79	*11.6*	19.11	*10.6*	1.68	*0.9*
200.00	25.79	*12.9*	24.11	*12.1*	1.68	*0.8*
220.00	33.49	*15.2*	29.21	*13.3*	4.28	*1.9*
240.00	40.31	*16.8*	36.71	*15.3*	3.60	*1.5*
260.00	45.31	*17.4*	43.97	*16.9*	1.34	*0.5*

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

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 5B

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
70.00	2.21	*3.2*	0.48	*0.7*	1.73	*2.5*
80.00	4.71	*5.9*	2.98	*3.7*	1.73	*2.2*
90.00	7.21	*8.0*	5.48	*6.1*	1.73	*1.9*
100.00	9.71	*9.7*	7.98	*8.0*	1.73	*1.7*
120.00	14.71	*12.3*	12.98	*10.8*	1.73	*1.4*
140.00	19.71	*14.1*	17.98	*12.8*	1.73	*1.2*
160.00	24.71	*15.4*	22.98	*14.4*	1.73	*1.1*
180.00	29.71	*16.5*	27.98	*15.5*	1.73	*1.0*
200.00	34.71	*17.4*	32.98	*16.5*	1.73	*0.9*
220.00	42.40	*19.3*	38.08	*17.3*	4.32	*2.0*
240.00	47.48	*19.8*	45.58	*19.0*	1.90	*0.8*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.79	*0.8*	0.00	*0.0*	0.79	*0.8*
120.00	5.79	*4.8*	3.25	*2.7*	2.54	*2.1*
140.00	10.79	*7.7*	8.25	*5.9*	2.54	*1.8*
160.00	15.79	*9.9*	13.25	*8.3*	2.54	*1.6*
180.00	20.79	*11.6*	18.25	*10.1*	2.54	*1.4*
200.00	25.79	*12.9*	23.25	*11.6*	2.54	*1.3*
220.00	33.49	*15.2*	28.34	*12.9*	5.15	*2.3*
240.00	40.31	*16.8*	35.84	*14.9*	4.47	*1.9*
260.00	45.31	*17.4*	43.34	*16.7*	1.97	*0.8*

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

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 5C

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
70.00	1.59	*2.3*	0.48	*0.7*	1.11	*1.6*
80.00	4.09	*5.1*	2.98	*3.7*	1.11	*1.4*
90.00	6.59	*7.3*	5.48	*6.1*	1.11	*1.2*
100.00	9.09	*9.1*	7.98	*8.0*	1.11	*1.1*
120.00	14.09	*11.7*	12.98	*10.8*	1.11	*0.9*
140.00	19.09	*13.6*	17.98	*12.8*	1.11	*0.8*
160.00	24.09	*15.1*	22.98	*14.4*	1.11	*0.7*
180.00	29.09	*16.2*	27.98	*15.5*	1.11	*0.6*
200.00	34.09	*17.0*	32.98	*16.5*	1.11	*0.6*
220.00	41.78	*19.0*	38.08	*17.3*	3.70	*1.7*
240.00	47.48	*19.8*	45.58	*19.0*	1.90	*0.8*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.00	*0.0*	0.00	*0.0*	0.00	*0.0*
110.00	2.48	*2.3*	0.75	*0.7*	1.73	*1.6*
120.00	4.98	*4.2*	3.25	*2.7*	1.73	*1.4*
140.00	9.98	*7.1*	8.25	*5.9*	1.73	*1.2*
160.00	14.98	*9.4*	13.25	*8.3*	1.73	*1.1*
180.00	19.98	*11.1*	18.25	*10.1*	1.73	*1.0*
200.00	24.98	*12.5*	23.25	*11.6*	1.73	*0.9*
220.00	32.67	*14.8*	28.34	*12.9*	4.33	*2.0*
240.00	40.31	*16.8*	35.84	*14.9*	4.47	*1.9*
260.00	45.31	*17.4*	43.34	*16.7*	1.97	*0.8*

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

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 6

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

	Charge for 1988-89			Proposed charge for 1989-90 post-October 1989			Reduction in tax and NIC after proposed change	
Income	Income tax	NIC[1]	Net income after tax and NIC	Income tax	NIC[1] post-October 1989	Net income after tax and NIC	Income tax and NIC	As percentage of total income
£	£	£	£	£	£	£	£	per cent
SINGLE PERSONS								
50.00	0.00	2.50	47.50	0.00	2.50	47.50	0.00	*0.0*
60.00	2.48	3.00	54.52	1.61	3.00	55.39	0.87	*1.4*
70.00	4.98	4.90	60.12	4.11	3.50	62.39	2.27	*3.2*
75.00	6.23	5.25	63.52	5.36	3.75	65.89	2.37	*3.2*
80.00	7.48	5.60	66.92	6.61	4.20	69.19	2.27	*2.8*
90.00	9.98	6.30	73.72	9.11	5.10	75.79	2.07	*2.3*
100.00	12.48	7.00	80.52	11.61	6.00	82.39	1.87	*1.9*
120.00	17.48	10.80	91.72	16.61	7.80	95.59	3.87	*3.2*
140.00	22.48	12.60	104.92	21.61	9.60	108.79	3.87	*2.8*
160.00	27.48	14.40	118.12	26.61	11.40	121.99	3.87	*2.4*
180.00	32.48	16.20	131.32	31.61	13.20	135.19	3.87	*2.2*
200.00	37.48	18.00	144.52	36.61	15.00	148.39	3.87	*1.9*
250.00	49.98	22.50	177.52	49.11	19.50	181.39	3.87	*1.5*
300.00	62.48	27.00	210.52	61.61	24.00	214.39	3.87	*1.3*
325.00	68.73	27.45	228.82	67.86	26.25	230.89	2.07	*0.6*
350.00	74.98	27.45	247.57	74.11	28.50	247.39	-0.18	*-0.1*
375.00	81.23	27.45	266.32	80.36	29.22	265.42	-0.90	*-0.3*
400.00	87.48	27.45	285.07	86.61	29.22	284.17	-0.90	*-0.2*
500.00	124.29	27.45	348.26	118.87	29.22	351.91	3.65	*0.7*
600.00	164.29	27.45	408.26	158.87	29.22	411.91	3.65	*0.6*
MARRIED COUPLES[2]								
80.00	0.31	5.60	74.09	0.00	4.20	75.80	1.71	*2.1*
90.00	2.81	6.30	80.89	1.47	5.10	83.43	2.54	*2.8*
100.00	5.31	7.00	87.69	3.97	6.00	90.03	2.34	*2.3*
120.00	10.31	10.80	98.89	8.97	7.80	103.23	4.34	*3.6*
140.00	15.31	12.60	112.09	13.97	9.60	116.43	4.34	*3.1*
160.00	20.31	14.40	125.29	18.97	11.40	129.63	4.34	*2.7*
180.00	25.31	16.20	138.49	23.97	13.20	142.83	4.34	*2.4*
200.00	30.31	18.00	151.69	28.97	15.00	156.03	4.34	*2.2*
250.00	42.81	22.50	184.69	41.47	19.50	189.03	4.34	*1.7*
300.00	55.31	27.00	217.69	53.97	24.00	222.03	4.34	*1.4*
325.00	61.56	27.45	235.99	60.22	26.25	238.53	2.54	*0.8*
350.00	67.81	27.45	254.74	66.47	28.50	255.03	0.29	*0.0*
375.00	74.06	27.45	273.49	72.72	29.22	273.06	-0.43	*-0.1*
400.00	80.31	27.45	292.24	78.97	29.22	291.81	-0.43	*-0.1*
500.00	112.83	27.45	359.72	106.63	29.22	364.15	4.43	*0.9*
600.00	152.83	27.45	419.72	146.63	29.22	424.15	4.43	*0.7*

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

[2] Calculations assume that only the husband has earned income.

TABLE 7

MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

Weekly income in 1988-89					Weekly income in 1989-90				Increase in income after tax, NIC and child benefit	
Income[1]	Child benefit	Income tax	NIC[2]	Net income[3]	Child benefit	Income tax	NIC[2] post-October 1989	Net income[3]	Increase in income	As percentage of total income
£	£	£	£	£	£	£	£	£	£	per cent
80.00	14.50	0.31	5.60	88.59	14.50	0.00	4.20	90.30	1.71	*2.1*
90.00	14.50	2.81	6.30	95.39	14.50	1.47	5.10	97.93	2.54	*2.8*
100.00	14.50	5.31	7.00	102.19	14.50	3.97	6.00	104.53	2.34	*2.3*
120.00	14.50	10.31	10.80	113.39	14.50	8.97	7.80	117.73	4.34	*3.6*
140.00	14.50	15.31	12.60	126.59	14.50	13.97	9.60	130.93	4.34	*3.1*
160.00	14.50	20.31	14.40	139.79	14.50	18.97	11.40	144.13	4.34	*2.7*
180.00	14.50	25.31	16.20	152.99	14.50	23.97	13.20	157.33	4.34	*2.4*
200.00	14.50	30.31	18.00	166.19	14.50	28.97	15.00	170.53	4.34	*2.2*
250.00	14.50	42.81	22.50	199.19	14.50	41.47	19.50	203.53	4.34	*1.7*
300.00	14.50	55.31	27.00	232.19	14.50	53.97	24.00	236.53	4.34	*1.4*
325.00	14.50	61.56	27.45	250.49	14.50	60.22	26.25	253.03	2.54	*0.8*
350.00	14.50	67.81	27.45	269.24	14.50	66.47	28.50	269.53	0.29	*0.0*
375.00	14.50	74.06	27.45	287.99	14.50	72.72	29.22	287.56	-0.43	*-0.1*
400.00	14.50	80.31	27.45	306.74	14.50	78.97	29.22	306.31	-0.43	*-0.1*
500.00	14.50	112.83	27.45	374.22	14.50	106.63	29.22	378.65	4.43	*0.9*
600.00	14.50	152.83	27.45	434.22	14.50	146.63	29.22	438.65	4.43	*0.7*

[1] Calculations assume that only the husband has earned income.

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

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

TABLE 8

SINGLE PERSONS AND MARRIED COUPLES

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

Charge for 1988-89			Proposed charge for 1989-90			
Income	Income tax	Percentage of total income taken in tax	Adjusted income[1]	Income tax	Percentage of total income taken in tax	Percentage change in net income
£	£	per cent	£	£	per cent	per cent
SINGLE PERSONS						
3,000	99	*3.3*	**3,225**	110	*3.4*	*7.4*
4,000	349	*8.7*	**4,300**	379	*8.8*	*7.4*
6,000	849	*14.2*	**6,450**	916	*14.2*	*7.4*
8,000	1,349	*16.9*	**8,600**	1,454	*16.9*	*7.4*
10,000	1,849	*18.5*	**10,750**	1,991	*18.5*	*7.5*
12,000	2,349	*19.6*	**12,900**	2,529	*19.6*	*7.5*
15,000	3,099	*20.7*	**16,125**	3,335	*20.7*	*7.5*
20,000	4,349	*21.7*	**21,500**	4,679	*21.8*	*7.5*
25,000	6,063	*24.3*	**26,875**	6,531	*24.3*	*7.4*
30,000	8,063	*26.9*	**32,250**	8,681	*26.9*	*7.4*
40,000	12,063	*30.2*	**43,000**	12,981	*30.2*	*7.5*
50,000	16,063	*32.1*	**53,750**	17,281	*32.2*	*7.5*
60,000	20,063	*33.4*	**64,500**	21,581	*33.5*	*7.5*
70,000	24,063	*34.4*	**75,250**	25,881	*34.4*	*7.5*
MARRIED COUPLES[2]						
5,000	226	*4.5*	**5,375**	250	*4.7*	*7.4*
6,000	476	*7.9*	**6,450**	519	*8.0*	*7.4*
8,000	976	*12.2*	**8,600**	1,056	*12.3*	*7.4*
10,000	1,476	*14.8*	**10,750**	1,594	*14.8*	*7.4*
12,000	1,976	*16.5*	**12,900**	2,131	*16.5*	*7.4*
15,000	2,726	*18.2*	**16,125**	2,938	*18.2*	*7.4*
20,000	3,976	*19.9*	**21,500**	4,281	*19.9*	*7.5*
25,000	5,467	*21.9*	**26,875**	5,895	*21.9*	*7.4*
30,000	7,467	*24.9*	**32,250**	8,045	*24.9*	*7.4*
40,000	11,467	*28.7*	**43,000**	12,345	*28.7*	*7.4*
50,000	15,467	*30.9*	**53,750**	16,645	*31.0*	*7.4*
60,000	19,467	*32.4*	**64,500**	20,945	*32.5*	*7.5*
70,000	23,467	*33.5*	**75,250**	25,245	*33.5*	*7.5*

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

[2] Calculations assume that only the husband has earned income.

TABLE 9

SINGLE PERSONS AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

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

Charge for 1988-89				Proposed charge for 1989-90 post-October 1989				
Income £	Income tax £	NIC[1] £	Percent. of total income taken in tax and NIC per cent	Adjusted income[2] £	Income tax £	NIC[1] post-Oct. 1989 £	Percent. of total income taken in tax and NIC per cent	Percent. change in income after tax and NIC per cent
SINGLE PERSONS								
50.00	0.00	2.50	*5.0*	**53.75**	0.05	2.68	*5.1*	*7.4*
60.00	2.48	3.00	*9.1*	**64.50**	2.74	3.22	*9.2*	*7.4*
70.00	4.98	4.90	*14.1*	**75.25**	5.42	3.77	*12.2*	*9.9*
80.00	7.48	5.60	*16.4*	**86.00**	8.11	4.74	*14.9*	*9.3*
90.00	9.98	6.30	*18.1*	**96.75**	10.80	5.70	*17.1*	*8.9*
100.00	12.48	7.00	*19.5*	**107.50**	13.49	6.67	*18.8*	*8.5*
120.00	17.48	10.80	*23.6*	**129.00**	18.86	8.61	*21.3*	*10.7*
140.00	22.48	12.60	*25.1*	**150.50**	24.24	10.54	*23.1*	*10.3*
160.00	27.48	14.40	*26.2*	**172.00**	29.61	12.48	*24.5*	*10.0*
180.00	32.48	16.20	*27.0*	**193.50**	34.99	14.41	*25.5*	*9.7*
200.00	37.48	18.00	*27.7*	**215.00**	40.36	16.35	*26.4*	*9.5*
250.00	49.98	22.50	*29.0*	**268.75**	53.80	21.18	*27.9*	*9.2*
300.00	62.48	27.00	*29.8*	**322.50**	67.24	26.02	*28.9*	*8.9*
325.00	68.73	27.45	*29.6*	**349.38**	73.96	28.44	*29.3*	*7.9*
350.00	74.98	27.45	*29.3*	**376.25**	80.67	29.22	*29.2*	*7.6*
375.00	81.23	27.45	*29.0*	**403.12**	87.39	29.22	*28.9*	*7.6*
400.00	87.48	27.45	*28.7*	**430.00**	94.11	29.22	*28.7*	*7.6*
500.00	124.29	27.45	*30.3*	**537.50**	133.87	29.22	*30.3*	*7.5*
600.00	164.29	27.45	*32.0*	**645.00**	176.87	29.22	*32.0*	*7.5*
MARRIED COUPLES[3]								
80.00	0.31	5.60	*7.4*	**86.00**	0.47	4.74	*6.1*	*9.0*
90.00	2.81	6.30	*10.1*	**96.75**	3.15	5.70	*9.1*	*8.7*
100.00	5.31	7.00	*12.3*	**107.50**	5.84	6.67	*11.6*	*8.3*
120.00	10.31	10.80	*17.6*	**129.00**	11.22	8.61	*15.4*	*10.4*
140.00	15.31	12.60	*19.9*	**150.50**	16.59	10.54	*18.0*	*10.1*
160.00	20.31	14.40	*21.7*	**172.00**	21.97	12.48	*20.0*	*9.8*
180.00	25.31	16.20	*23.1*	**193.50**	27.34	14.41	*21.6*	*9.6*
200.00	30.31	18.00	*24.2*	**215.00**	32.72	16.35	*22.8*	*9.4*
250.00	42.81	22.50	*26.1*	**268.75**	46.15	21.18	*25.1*	*9.1*
300.00	55.31	27.00	*27.4*	**322.50**	59.59	26.02	*26.5*	*8.8*
325.00	61.56	27.45	*27.4*	**349.38**	66.31	28.44	*27.1*	*7.9*
350.00	67.81	27.45	*27.2*	**376.25**	73.03	29.22	*27.2*	*7.6*
375.00	74.06	27.45	*27.1*	**403.12**	79.75	29.22	*27.0*	*7.6*
400.00	80.31	27.45	*26.9*	**430.00**	86.47	29.22	*26.9*	*7.6*
500.00	112.83	27.45	*28.1*	**537.50**	121.63	29.22	*28.1*	*7.5*
600.00	152.83	27.45	*30.0*	**645.00**	164.63	29.22	*30.1*	*7.5*

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

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

[3] Calculations assume that only the husband has earned income.

TABLE 10

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

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

1988-89					1989-90					
Income[1] £	Child Benefit £	Income tax £	NIC[2] £	Net income[3] £	Adjusted income[4] £	Child benefit £	Income tax £	NIC[2] post-October 1989 £	Net income[3] £	Percentage change in net income per cent
70.00	14.50	0.00	4.90	79.60	**75.25**	14.50	0.00	3.77	85.98	*8.0*
80.00	14.50	0.31	5.60	88.59	**86.00**	14.50	0.47	4.74	95.29	*7.6*
90.00	14.50	2.81	6.30	95.39	**96.75**	14.50	3.15	5.70	102.40	*7.3*
100.00	14.50	5.31	7.00	102.19	**107.50**	14.50	5.84	6.67	109.49	*7.1*
120.00	14.50	10.31	10.80	113.39	**129.00**	14.50	11.22	8.61	123.67	*9.1*
140.00	14.50	15.31	12.60	126.59	**150.50**	14.50	16.59	10.54	137.87	*8.9*
160.00	14.50	20.31	14.40	139.79	**172.00**	14.50	21.97	12.48	152.05	*8.8*
180.00	14.50	25.31	16.20	152.99	**193.50**	14.50	27.34	14.41	166.25	*8.7*
200.00	14.50	30.31	18.00	166.19	**215.00**	14.50	32.72	16.35	180.43	*8.6*
250.00	14.50	42.81	22.50	199.19	**268.75**	14.50	46.15	21.18	215.92	*8.4*
300.00	14.50	55.31	27.00	232.19	**322.50**	14.50	59.59	26.02	251.39	*8.3*
325.00	14.50	61.56	27.45	250.49	**349.38**	14.50	66.31	28.44	269.13	*7.4*
350.00	14.50	67.81	27.45	269.24	**376.25**	14.50	73.03	29.22	288.50	*7.2*
375.00	14.50	74.06	27.45	287.99	**403.12**	14.50	79.75	29.22	308.65	*7.2*
400.00	14.50	80.31	27.45	306.74	**430.00**	14.50	86.47	29.22	328.81	*7.2*
500.00	14.50	112.83	27.45	374.22	**537.50**	14.50	121.63	29.22	401.15	*7.2*
600.00	14.50	152.83	27.45	434.22	**645.00**	14.50	164.63	29.22	465.65	*7.2*

[1] Calculations assume that only the husband has earned income.

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

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

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

TABLE 11

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

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

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

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

[2] Denotes wife's earnings election beneficial.

DRAFT

STOCK LENDING: EXTENSION TO LLOYD'S UNDERWRITERS

The Chancellor proposes in his Budget to change the law so that Lloyd's underwriters can be approved to lend stock to market makers without tax penalty.

The change will give Lloyds members the opportunity to earn fees by stock lending. It will also improve the liquidity of the market in some stocks (particularly the gilts market) by providing a new source of stock available for borrowing by market makers.

DETAILS

Stock lending

1. Market makers in securities may need to sell securities which they do not possess in order to meet demand fro the securities. They may then borrow the securities from an institutional holder in order to deliver them to the purchasers, returning equivalent securities to the institution later.

2. If there were no special rules, the transfer of the securities from the institutional holder to the market maker and the later return of them would be disposals for tax purposes and give rise to a capital gains tax charge (or a corporation tax charge on profits in the case of a financial trader.) However, the Board of Inland Revenue [or, in the case of gilts, the Bank of England] may approve arrangements for lending stock under which the transfers are ignored for capital gains tax and corporation tax on profits.

Application to Lloyd's

3. It has not, hitherto, been possible to approve arrangements in which Lloyd's underwriters lend stock to

market makers. This is because of the way the present tax rules apply to their capital gains tax and accrued income scheme liabilities. Under these rules, to match the administrative arrangements of Lloyd's, all securities held by a syndicate in a premium trust fund are treated for the purposes of capital gains tax and the accrued income scheme as disposed of at the end of each accounting period (the calendar year). But stock which had been lent to a market maker would no longer itself be held in the premiums trust fund and would therefore be outside this deemed disposal for capital gains tax and accrued income scheme. If arrangements for stock lending were approved the rules for calculating gains on stock lent out over the end of the year would not work properly.

4. The Chancellor therefore proposes to include stock lent under approved lending arrangements within the deemed disposal rules for Lloyd's underwriters. There will be no charge on the stock when it is lent or returned but there will be a charge on it at the end of the year. Any fee received by the underwriter will be taxable. This will enable stock lending arrangements involving Lloyds to be approved which will in turn make it possible for Lloyd's underwriters to take part in stock lending business. [Timing]

5. At the same time the Chancellor proposes to correct a couple of minor errors in the legislation empowering the Inland Revenue to make regulations affecting the administrative arrangements for taxing Lloyd's.

NOTES FOR EDITORS

The mechanism under which the Board of Inland Revenue can approve arrangements for stock lending are of long standing. They will shortly be the subject of regulations to be made under powers contained in Section 61 of the Finance Act 1986.

TEXT SENT TO FST FOR COMMENT 21/2

BUDGET CONFIDENTIAL

DRAFT PRESS RELEASE

SUBCONTRACTOR SCHEME: CONSULTATION ON REDUCING REQUIREMENTS

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

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

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

DETAILS

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

Voucher requirements

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

6. The consultative document suggests that:

- the first and last payments under a contract should remain supported by vouchers, but that no voucher be provided for intervening payments until the running total exceeds, say, £2,500.

- vouchers be provided by the subcontractor by the time of payment rather than within a week after payment

- vouchers be sent by the contractor to the Inland Revenue monthly rather than weekly

- there be a limit, say of £10,000, on the amount a single voucher may cover: so larger payments would need more than one voucher

- the Inland Revenue should be notified by the contractor of the first payment under a contract made to a subcontractor which is a large company with a '714C' certificate.

Deduction scheme paperwork

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

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

Direct issue of certificates and vouchers

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

Activities covered by subcontractor scheme

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

Compliance costs

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

[Further steps

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

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

NOTES FOR EDITORS

1. There is a special regime for subcontractors in the construction industry. This regime does not extend to householders and others commissioning small works, but otherwise applies widely to self-employed subcontractors and those engaging them.

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

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

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

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

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

DRAFT PRESS NOTICE

[3x]

PERSONAL EQUITY PLANS IMPROVED

The Chancellor proposes in his Budget a major package of improvements to Personal Equity Plans (PEPs). The main features are:-

- the overall (annual) investment limit is to be increased from £3,000 to £4,800;
- the annual limit for investment in authorised unit trusts and investment trusts is to be raised from £540 (or up to £750 in some circumstances) to £2,400;
- the scheme will be better targeted with a new requirement that unit or investment trusts within PEPs must invest mainly in UK equities;
- a facility will be introduced to allow new issue shares, including future privatisation issues, to be brought within plans;
- significant simplifications are to be made to the administration of the scheme.

The starting date for the changes will be 6 April 1989, but unit and investment trusts will be given until 5 April 1990 to meet the requirement to invest mostly in UK equities.

As a transitional measure, plan managers will be able to continue on the basis of the existing rules, if they wish, until 31 December 1989.

The Government believes that these changes will give a significant boost to PEPs. They will make them more attractive to investors - particularly smaller investors - by allowing them considerably greater flexibility. At the same time the simplifications will help keep plan managers' costs - and their charges to investors - to a minimum.

/DETAILS OF ...

DETAILS OF THE PROPOSALS

Increase in the amount that can be invested

1. The overall investment limit is the annual maximum limit for subscription to a plan. To make full use of the limit the plan manager must invest substantially in UK shares on the investor's behalf. When the increase in limit takes effect on 6 April, it will have been doubled from £2,400 to £4,800 since the scheme was introduced two years ago.

Unit trusts and investment trusts within PEPs

2. At present, the annual limit for investment in authorised unit trusts and investment trusts operates on the basis of a fairly small limit (currently £540) where a plan invests wholly in unit or investment trusts. A larger limit (up to £750) is possible provided the investment in the unit or investment trust forms no more than a quarter of the overall PEP investment for the year. But there is no stipulation as to what the unit or investment trust may invest in.

3. For the future, the investment limit is to be raised significantly to £2,400: the rule described above will be simplified so that the new limit applies regardless of whether or not the unit or investment trust holding forms part of a larger portfolio within a plan.

4. At the same time the Government want to continue the present targeting of the relief. So, after a 12-month transitional period, investment through a PEP in such trusts will be limited to those trusts which themselves invest at least 75 per cent in UK equities. This maintains the original intention of the scheme to encourage investment in British industry.

New issues and privatisation shares

5. The PEP regulations at present require that investment in plans must be in cash: shares already held cannot be transferred into a plan. This rule is to be relaxed to allow individuals who wish to subscribe for new issue shares, including privatisation issues, to do so outside their PEP. Then, when the allocation has been announced, they will be able to transfer all or part of their allocation into their plan, so that they can benefit from tax-free dividends, and tax-free capital gains. The value of the shares (at the offer price) will count towards the overall investment limit, and investors will have 30 days from the day the share allocation is announced to make up their minds.

6. The following example shows how the new provision could work:-

1989-90

Amount of investment permitted overall	£4,800
within which unit/investment trust limit	£2,400

/Miss A

Miss A takes out a PEP on 29 April 1989. She invests:-

Equities	£1,000	
Unit trust	1,200	
Investment trust	1,200	
Total		£3,400
Amount still available for investment in equities		£1,400

In June 1989, Miss A applies for 1,000 new issue shares at an offer price of 200p each.

If, when the shares are allocated, she receives the full 1,000 shares at a cost of £2,000, she may transfer a maximum of 700 shares into her plan at a value of £1,400. She may not then make any further subscription, or transfer any further new issue shares into the plan until 6 April 1990.

If, when the shares are allocated, she receives only 500 shares, she may transfer all 500 shares into her plan at a value of £1,000. If she wishes, she can make a further subscription of up to £400 for further equities (or transfer other new issue shares to the same value) into her plan before 5 April 1990.

7. It will be for plan managers to decide whether or not to offer this new facility. Even where a plan manager at present offers PEPs investing only in unit or investment trusts, he will be able to offer a facility for investors to bring in new-issue equities - up to the overall investment limit - over and above the unit or investment trust holding. The plan manager will be able, if he wishes, to offer a custodial facility for the new shares: he will simply hold them, and claim back tax credits on behalf of the investor, until the investor wants to sell them.

Greater simplicity and flexibility

8. The proposed simplifications are as follows:-

- The "minimum holding period" is to be abolished. Thus, there will no longer be a rule that all plans must be held for at least a full calendar year in order to qualify for the tax reliefs.

- The maximum permitted investment will be worked out on the basis of the fiscal year (6 April to 5 April), rather than on the calendar year basis. There will be optional transitional provisions for those already holding PEPs.

- The "cash holding rules" are to be abolished. At present these rules place limits on the amount of cash, as opposed to shares, that can be held in a plan. For the future, there will be no specific rules on how much cash can be held, and for how long. Instead, all interest arising on such cash will be subject to composite rate tax in the same way as bank or building society deposits.

- The Inland

- The Inland Revenue will no longer require plan managers to submit PEP application forms for approval.

- The amount of information required from plan managers by the Inland Revenue will be reduced.

- The rule which prevents switching from an investment in shares to an investment in authorised unit trusts or investment trusts within a plan is to be relaxed. A provision will be introduced which will allow limited switching from shares into unit or investment trusts: it will be a condition that the value of the holding in unit and investment trusts immediately after the switch is not more than half the value of the whole PEP portfolio.

Cost

9. The cost of the proposals is expected to be £5 million in 1989-90, and £10 million in 1990-91, rising to perhaps £30 million after 5 years.

Amendment of Regulations

10. The detailed rules for personal equity plans are set out in statutory regulations. The Chancellor's proposals will therefore be introduced as amending regulations rather than in the Finance Bill. The regulations are due to be made [today].

NOTES FOR EDITORS

Personal Equity Plans

1. Personal Equity Plans (PEPs) were introduced in the 1986 Budget to encourage investment in shares in UK companies. Dividends arising on shares and units held in a plan are entirely free of income tax; and there is no capital gains tax charge. Until now, it has been a requirement that - to qualify for the tax benefits - investments must be retained in the plan for at least a complete calendar year after the year the investment is made; but this requirement is now to be abolished.

2. Investors do not need to keep records, or declare their dividends and gains on their tax returns. So PEPs do not give rise to any involvement with the Inland Revenue. The administration is carried out by authorised plan managers. Investors may put a lump sum into a plan or invest a regular amount. They may subscribe to an "own-choice" plan (where the investor decides what shares or units to buy) or a "managed" plan (where the plan manager makes the investment decisions).

/Take-up ...

Take-up of PEPs

3. Since the scheme started in 1987, it is estimated that over 375,000 plans have been taken out, with a total investment [approaching £700 million].

Other changes

4. On 11 January 1989 the Government announced a change which enabled plan managers to claim back from the Inland Revenue on behalf of investors tax credits on all dividends, regardless of whether the dividends are passed on to the investor or reinvested in the plan. Previously, only dividends reinvested in the plan were entitled to the relief.

The Treasury regulations are to be amended to reflect this change. In the meantime, the Inland Revenue have implemented the change by extra-statutory concession.

5. When the Treasury regulations are amended to implement the changes announced today, they will also be amended to remove some investor-protection measures which are now adequately covered in the rules of the Securities and Investments Boards (or those of the other self-regulatory bodies with which PEP managers have to be registered).

Compliance cost assessments

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

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

DRAFT

REMOVAL OF TAX DISADVANTAGES FACED BY UNIT TRUSTS

The Chancellor proposes in his Budget to introduce from 1 January 1990 a new tax regime for unit trusts which are freely marketable within the European Community under the UCITS directive. This will enable them to compete more effectively with their continental counterparts.

The new system builds on the existing corporation tax regime for most authorised unit trusts. Its main features are:

- Reduction of the corporation tax rate to the basic rate of income tax. So removing any UK tax charge on a trust which cannot be credited to unitholders.

- Relief for expenses of management and interest paid

- Simplicity

The change will reduce the tax bill on unit trusts ~~investment~~ by £20m a year.

DETAILS

1. <u>The UCITS directive</u>

Under a European Community directive, collective investment vehicles that are UCITS (Undertakings for Collective Investment in Transferable Securities) will be able to market their units or shares throughout the whole of the Community from 1 October 1989, in each case subject only to compliance with local marketing regulations. Most UK authorised unit trusts will be UCITS.

2. <u>Present tax arrangements</u>

Authorised unit trusts (other than gilt trusts which invest only in UK interest bearing securities) are taxed like companies. They are liable to mainstream corporation tax on the income they receive. And they have to pay advance corporation tax on the income they have available for distribution. The unitholder gets a dividend to which a tax credit is attached. Under the normal corporation tax rules, the trust is allowed to deduct management expenses and interest paid in arriving at its taxable income.

Gilt trusts pay income tax at the basic rate on their income, but get no relief for management expenses or interest paid. Amounts available for distribution are treated as received by unitholders as income on which basic rate tax has already been paid.

MAIN FEATURES OF THE PROPOSED NEW SYSTEM FOR UNIT TRUSTS

3. All unit trusts that are UCITS to be covered

This means gilt trusts that are UCITS will cease to be dealt with under an income tax regime. The switch will take place for the first distribution period of the trust starting after 31 December 1989. As a result of this switch gilt trusts will be able to get tax relief for expenses of management and for interest paid.

4. Lower rate of corporation tax

The income of unit trusts that are UCITS will be charged to corporation tax at a rate equal to the basic rate of income tax as from 1 January 1990. This means that the only UK tax payable by the trust will be fully offsettable (by repayment or credit) against the unitholders' tax liability. The main beneficiaries will be trusts investing a proportion of their money in bonds or fixed interest securities where before the Budget the trust paid tax at 35% on the income but the unitholder only received a credit of 25%.

5. Corporate unitholders

Companies who invest in unit trusts will be liable to corporation tax on the income they receive, but they will get credit at the basic rate of income tax for the tax paid by the trust. The main corporate investors in unit trusts are life assurance companies. Their rate of corporation tax will also fall to the same as the basic rate of income tax from 1 January 1990. So their tax liability on unit trust income will be covered by the tax credited as paid. Small companies paying the reduced rate of corporation tax will be in the same position. Other companies will ~~ahve~~ have to pay the difference between the full rate of corporation tax and the basic rate of income tax credited as paid on the unit trust income.

NOTES FOR EDITORS

1. The new system will start from 1 January 1990 to tie in with the commencement of the proposed new regime for life assurance companies. This is to avoid the need for administratively costly transitional provisions in the very short period between 1 October 1989 and 1 January 1990.

2. Authorised unit trusts that are not UCITS and investment trusts are not included in the new regime since they cannot be marketed in Europe and because comparable European vehicles cannot be marketed in the UK by virtue of the UCITS directive.

3. Most European countries apply a "transparent" regime for collective investment schemes. The taxayer is taxed as if he held a pro rata share of the underlying asset, but does effectively get tax relief for management expenses. The proposed

tax regime effectively achieves the same result, but avoids the complexities of transparency. In particular, it avoids the need for unit trusts to identify the extent to which distributions are derived from different types of income and provide details ~~of~~ to each unitholder.

4. The UCITS directive is the European Communities Council directive of 20 December 1985 (85/611/EEC) as amended by directive 88/220/EEC of 22 March 1988.

5. <u>Compliance Cost Assessment</u>

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

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

TABLE 1

SINGLE PERSONS - ANNUAL FIGURES

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

TABLE 2

MARRIED COUPLES - ANNUAL FIGURES

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
4,500	101	*2.2*	31	*0.7*	70	*1.6*
5,000	226	*4.5*	156	*3.1*	70	*1.4*
6,000	476	*7.9*	406	*6.8*	70	*1.2*
7,000	726	*10.4*	656	*9.4*	70	*1.0*
8,000	976	*12.2*	906	*11.3*	70	*0.9*
9,000	1,226	*13.6*	1,156	*12.8*	70	*0.8*
10,000	1,476	*14.8*	1,406	*14.1*	70	*0.7*
12,000	1,976	*16.5*	1,906	*15.9*	70	*0.6*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*
16,000	2,976	*18.6*	2,906	*18.2*	70	*0.4*
18,000	3,476	*19.3*	3,406	*18.9*	70	*0.4*
20,000	3,976	*19.9*	3,906	*19.5*	70	*0.4*
25,000	5,467	*21.9*	5,156	*20.6*	311	*1.2*
30,000	7,467	*24.9*	7,145	*23.8*	322	*1.1*
40,000	11,467	*28.7*	11,145	*27.9*	322	*0.8*
50,000	15,467	*30.9*	15,145	*30.3*	322	*0.6*
60,000	19,467	*32.4*	19,145	*31.9*	322	*0.5*
70,000	23,467	*33.5*	23,145	*33.1*	322	*0.5*

Calculations assume that only the husband has earned income.

TABLE 3A

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,500	80	*2.3*	25	*0.7*	55	*1.6*
4,000	205	*5.1*	150	*3.8*	55	*1.4*
5,000	455	*9.1*	400	*8.0*	55	*1.1*
6,000	705	*11.8*	650	*10.8*	55	*0.9*
7,000	955	*13.6*	900	*12.9*	55	*0.8*
8,000	1,205	*15.1*	1,150	*14.4*	55	*0.7*
9,000	1,455	*16.2*	1,400	*15.6*	55	*0.6*
10,000	1,705	*17.0*	1,650	*16.5*	55	*0.6*
11,000	2,022	*18.4*	1,900	*17.3*	122	*1.1*
12,000	2,349	*19.6*	2,225	*18.5*	124	*1.0*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	116	*2.1*	29	*0.5*	87	*1.6*
6,000	241	*4.0*	154	*2.6*	87	*1.4*
7,000	491	*7.0*	404	*5.8*	87	*1.2*
8,000	741	*9.3*	654	*8.2*	87	*1.1*
9,000	991	*11.0*	904	*10.0*	87	*1.0*
10,000	1,241	*12.4*	1,154	*11.5*	87	*0.9*
11,000	1,558	*14.2*	1,404	*12.8*	154	*1.4*
12,000	1,975	*16.5*	1,729	*14.4*	246	*2.0*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

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

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

TABLE 3B

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
3,500	80	*2.3*	0	*0.0*	80	*2.3*
4,000	205	*5.1*	115	*2.9*	90	*2.2*
5,000	455	*9.1*	365	*7.3*	90	*1.8*
6,000	705	*11.8*	615	*10.2*	90	*1.5*
7,000	955	*13.6*	865	*12.4*	90	*1.3*
8,000	1,205	*15.1*	1,115	*13.9*	90	*1.1*
9,000	1,455	*16.2*	1,365	*15.2*	90	*1.0*
10,000	1,705	*17.0*	1,615	*16.2*	90	*0.9*
11,000	2,022	*18.4*	1,865	*17.0*	157	*1.4*
12,000	2,349	*19.6*	2,190	*18.2*	159	*1.3*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	116	*2.1*	0	*0.0*	116	*2.1*
6,000	241	*4.0*	109	*1.8*	132	*2.2*
7,000	491	*7.0*	359	*5.1*	132	*1.9*
8,000	741	*9.3*	609	*7.6*	132	*1.6*
9,000	991	*11.0*	859	*9.5*	132	*1.5*
10,000	1,241	*12.4*	1,109	*11.1*	132	*1.3*
11,000	1,558	*14.2*	1,359	*12.4*	199	*1.8*
12,000	1,975	*16.5*	1,684	*14.0*	291	*2.4*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

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

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

TABLE 3C

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
3,500	48	*1.4*	0	*0.0*	48	*1.4*
4,000	172	*4.3*	115	*2.9*	57	*1.4*
5,000	422	*8.4*	365	*7.3*	57	*1.1*
6,000	672	*11.2*	615	*10.2*	57	*1.0*
7,000	922	*13.2*	865	*12.4*	57	*0.8*
8,000	1,172	*14.6*	1,115	*13.9*	57	*0.7*
9,000	1,422	*15.8*	1,365	*15.2*	57	*0.6*
10,000	1,672	*16.7*	1,615	*16.2*	57	*0.6*
11,000	1,989	*18.1*	1,865	*17.0*	124	*1.1*
12,000	2,349	*19.6*	2,190	*18.2*	159	*1.3*
14,000	2,849	*20.4*	2,804	*20.0*	45	*0.3*
MARRIED COUPLES[1]						
5,500	74	*1.3*	0	*0.0*	74	*1.3*
6,000	199	*3.3*	109	*1.8*	90	*1.5*
7,000	449	*6.4*	359	*5.1*	90	*1.3*
8,000	699	*8.7*	609	*7.6*	90	*1.1*
9,000	949	*10.5*	859	*9.5*	90	*1.0*
10,000	1,199	*12.0*	1,109	*11.1*	90	*0.9*
11,000	1,515	*13.8*	1,359	*12.4*	156	*1.4*
12,000	1,932	*16.1*	1,684	*14.0*	248	*2.1*
14,000	2,476	*17.7*	2,406	*17.2*	70	*0.5*

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

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

TABLE 4

SINGLE PERSONS AND MARRIED COUPLES - WEEKLY FIGURES

Income	Charge for 1988-89: Income tax	Charge for 1988-89: Percentage of total income taken in tax	Proposed charge for 1989-90: Income tax	Proposed charge for 1989-90: Percentage of total income taken in tax	Reduction in tax after proposed change: Income tax	Reduction in tax after proposed change: As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
60.00	2.48	*4.1*	1.61	*2.7*	0.87	*1.4*
70.00	4.98	*7.1*	4.11	*5.9*	0.87	*1.2*
80.00	7.48	*9.4*	6.61	*8.3*	0.87	*1.1*
90.00	9.98	*11.1*	9.11	*10.1*	0.87	*1.0*
100.00	12.48	*12.5*	11.61	*11.6*	0.87	*0.9*
120.00	17.48	*14.6*	16.61	*13.8*	0.87	*0.7*
140.00	22.48	*16.1*	21.61	*15.4*	0.87	*0.6*
160.00	27.48	*17.2*	26.61	*16.6*	0.87	*0.5*
180.00	32.48	*18.0*	31.61	*17.6*	0.87	*0.5*
200.00	37.48	*18.7*	36.61	*18.3*	0.87	*0.4*
250.00	49.98	*20.0*	49.11	*19.6*	0.87	*0.3*
300.00	62.48	*20.8*	61.61	*20.5*	0.87	*0.3*
305.00	63.73	*20.9*	62.86	*20.6*	0.87	*0.3*
350.00	74.98	*21.4*	74.11	*21.2*	0.87	*0.2*
400.00	87.48	*21.9*	86.61	*21.7*	0.87	*0.2*
500.00	124.29	*24.9*	118.87	*23.8*	5.42	*1.1*
600.00	164.29	*27.4*	158.87	*26.5*	5.42	*0.9*
MARRIED COUPLES[1]						
80.00	0.31	*0.4*	0.00	*0.0*	0.31	*0.4*
90.00	2.81	*3.1*	1.47	*1.6*	1.34	*1.5*
100.00	5.31	*5.3*	3.97	*4.0*	1.34	*1.3*
120.00	10.31	*8.6*	8.97	*7.5*	1.34	*1.1*
140.00	15.31	*10.9*	13.97	*10.0*	1.34	*1.0*
160.00	20.31	*12.7*	18.97	*11.9*	1.34	*0.8*
180.00	25.31	*14.1*	23.97	*13.3*	1.34	*0.7*
200.00	30.31	*15.2*	28.97	*14.5*	1.34	*0.7*
250.00	42.81	*17.1*	41.47	*16.6*	1.34	*0.5*
300.00	55.31	*18.4*	53.97	*18.0*	1.34	*0.4*
350.00	67.81	*19.4*	66.47	*19.0*	1.34	*0.4*
400.00	80.31	*20.1*	78.97	*19.7*	1.34	*0.3*
500.00	112.83	*22.6*	106.63	*21.3*	6.20	*1.2*
600.00	152.83	*25.5*	146.63	*24.4*	6.20	*1.0*

[1] Calculations assume that only the husband has earned income.

TABLE 5A

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income £	Income tax £	Percentage of total income taken in tax per cent	Income tax £	Percentage of total income taken in tax per cent	Income tax £	As percentage of total income per cent
SINGLE PERSONS						
70.00	2.21	*3.2*	1.15	*1.6*	1.06	*1.5*
80.00	4.71	*5.9*	3.65	*4.6*	1.06	*1.3*
90.00	7.21	*8.0*	6.15	*6.8*	1.06	*1.2*
100.00	9.71	*9.7*	8.65	*8.6*	1.06	*1.1*
120.00	14.71	*12.3*	13.65	*11.4*	1.06	*0.9*
140.00	19.71	*14.1*	18.65	*13.3*	1.06	*0.8*
160.00	24.71	*15.4*	23.65	*14.8*	1.06	*0.7*
180.00	29.71	*16.5*	28.65	*15.9*	1.06	*0.6*
200.00	34.71	*17.4*	33.65	*16.8*	1.06	*0.5*
220.00	42.40	*19.3*	38.75	*17.6*	3.65	*1.7*
240.00	47.48	*19.8*	46.25	*19.3*	1.23	*0.5*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.79	*0.8*	0.00	*0.0*	0.79	*0.8*
120.00	5.79	*4.8*	4.11	*3.4*	1.68	*1.4*
140.00	10.79	*7.7*	9.11	*6.5*	1.68	*1.2*
160.00	15.79	*9.9*	14.11	*8.8*	1.68	*1.0*
180.00	20.79	*11.6*	19.11	*10.6*	1.68	*0.9*
200.00	25.79	*12.9*	24.11	*12.1*	1.68	*0.8*
220.00	33.49	*15.2*	29.21	*13.3*	4.28	*1.9*
240.00	40.31	*16.8*	36.71	*15.3*	3.60	*1.5*
260.00	45.31	*17.4*	43.97	*16.9*	1.34	*0.5*

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

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 5B

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

Income	Charge for 1988-89: Income tax	Charge for 1988-89: Percentage of total income taken in tax	Proposed charge for 1989-90: Income tax	Proposed charge for 1989-90: Percentage of total income taken in tax	Reduction in tax after proposed change: Income tax	Reduction in tax after proposed change: As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
70.00	2.21	*3.2*	0.48	*0.7*	1.73	*2.5*
80.00	4.71	*5.9*	2.98	*3.7*	1.73	*2.2*
90.00	7.21	*8.0*	5.48	*6.1*	1.73	*1.9*
100.00	9.71	*9.7*	7.98	*8.0*	1.73	*1.7*
120.00	14.71	*12.3*	12.98	*10.8*	1.73	*1.4*
140.00	19.71	*14.1*	17.98	*12.8*	1.73	*1.2*
160.00	24.71	*15.4*	22.98	*14.4*	1.73	*1.1*
180.00	29.71	*16.5*	27.98	*15.5*	1.73	*1.0*
200.00	34.71	*17.4*	32.98	*16.5*	1.73	*0.9*
220.00	42.40	*19.3*	38.08	*17.3*	4.32	*2.0*
240.00	47.48	*19.8*	45.58	*19.0*	1.90	*0.8*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.79	*0.8*	0.00	*0.0*	0.79	*0.8*
120.00	5.79	*4.8*	3.25	*2.7*	2.54	*2.1*
140.00	10.79	*7.7*	8.25	*5.9*	2.54	*1.8*
160.00	15.79	*9.9*	13.25	*8.3*	2.54	*1.6*
180.00	20.79	*11.6*	18.25	*10.1*	2.54	*1.4*
200.00	25.79	*12.9*	23.25	*11.6*	2.54	*1.3*
220.00	33.49	*15.2*	28.34	*12.9*	5.15	*2.3*
240.00	40.31	*16.8*	35.84	*14.9*	4.47	*1.9*
260.00	45.31	*17.4*	43.34	*16.7*	1.97	*0.8*

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

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 5C

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

	Charge for 1988-89		Proposed charge for 1989-90		Reduction in tax after proposed change	
Income	Income tax	Percentage of total income taken in tax	Income tax	Percentage of total income taken in tax	Income tax	As percentage of total income
£	£	per cent	£	per cent	£	per cent
SINGLE PERSONS						
70.00	1.59	*2.3*	0.48	*0.7*	1.11	*1.6*
80.00	4.09	*5.1*	2.98	*3.7*	1.11	*1.4*
90.00	6.59	*7.3*	5.48	*6.1*	1.11	*1.2*
100.00	9.09	*9.1*	7.98	*8.0*	1.11	*1.1*
120.00	14.09	*11.7*	12.98	*10.8*	1.11	*0.9*
140.00	19.09	*13.6*	17.98	*12.8*	1.11	*0.8*
160.00	24.09	*15.1*	22.98	*14.4*	1.11	*0.7*
180.00	29.09	*16.2*	27.98	*15.5*	1.11	*0.6*
200.00	34.09	*17.0*	32.98	*16.5*	1.11	*0.6*
220.00	41.78	*19.0*	38.08	*17.3*	3.70	*1.7*
240.00	47.48	*19.8*	45.58	*19.0*	1.90	*0.8*
260.00	52.48	*20.2*	51.61	*19.8*	0.87	*0.3*
MARRIED COUPLES[1]						
100.00	0.00	*0.0*	0.00	*0.0*	0.00	*0.0*
110.00	2.48	*2.3*	0.75	*0.7*	1.73	*1.6*
120.00	4.98	*4.2*	3.25	*2.7*	1.73	*1.4*
140.00	9.98	*7.1*	8.25	*5.9*	1.73	*1.2*
160.00	14.98	*9.4*	13.25	*8.3*	1.73	*1.1*
180.00	19.98	*11.1*	18.25	*10.1*	1.73	*1.0*
200.00	24.98	*12.5*	23.25	*11.6*	1.73	*0.9*
220.00	32.67	*14.8*	28.34	*12.9*	4.33	*2.0*
240.00	40.31	*16.8*	35.84	*14.9*	4.47	*1.9*
260.00	45.31	*17.4*	43.34	*16.7*	1.97	*0.8*

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

For incomes above these levels, the figures are the same as those in Table 4.

TABLE 6

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

	Charge for 1988-89			Proposed charge for 1989-90 post-October 1989			Reduction in tax and NIC after proposed change	
Income £	Income tax £	NIC[1] £	Net income after tax and NIC £	Income tax £	NIC[1] post-October 1989 £	Net income after tax and NIC £	Income tax and NIC £	As percentage of total income per cent
SINGLE PERSONS								
50.00	0.00	2.50	47.50	0.00	2.50	47.50	0.00	*0.0*
60.00	2.48	3.00	54.52	1.61	3.00	55.39	0.87	*1.4*
70.00	4.98	4.90	60.12	4.11	3.50	62.39	2.27	*3.2*
75.00	6.23	5.25	63.52	5.36	3.75	65.89	2.37	*3.2*
80.00	7.48	5.60	66.92	6.61	4.20	69.19	2.27	*2.8*
90.00	9.98	6.30	73.72	9.11	5.10	75.79	2.07	*2.3*
100.00	12.48	7.00	80.52	11.61	6.00	82.39	1.87	*1.9*
120.00	17.48	10.80	91.72	16.61	7.80	95.59	3.87	*3.2*
140.00	22.48	12.60	104.92	21.61	9.60	108.79	3.87	*2.8*
160.00	27.48	14.40	118.12	26.61	11.40	121.99	3.87	*2.4*
180.00	32.48	16.20	131.32	31.61	13.20	135.19	3.87	*2.2*
200.00	37.48	18.00	144.52	36.61	15.00	148.39	3.87	*1.9*
250.00	49.98	22.50	177.52	49.11	19.50	181.39	3.87	*1.5*
300.00	62.48	27.00	210.52	61.61	24.00	214.39	3.87	*1.3*
325.00	68.73	27.45	228.82	67.86	26.25	230.89	2.07	*0.6*
350.00	74.98	27.45	247.57	74.11	28.50	247.39	-0.18	*-0.1*
375.00	81.23	27.45	266.32	80.36	29.22	265.42	-0.90	*-0.3*
400.00	87.48	27.45	285.07	86.61	29.22	284.17	-0.90	*-0.2*
500.00	124.29	27.45	348.26	118.87	29.22	351.91	3.65	*0.7*
600.00	164.29	27.45	408.26	158.87	29.22	411.91	3.65	*0.6*
MARRIED COUPLES[2]								
80.00	0.31	5.60	74.09	0.00	4.20	75.80	1.71	*2.1*
90.00	2.81	6.30	80.89	1.47	5.10	83.43	2.54	*2.8*
100.00	5.31	7.00	87.69	3.97	6.00	90.03	2.34	*2.3*
120.00	10.31	10.80	98.89	8.97	7.80	103.23	4.34	*3.6*
140.00	15.31	12.60	112.09	13.97	9.60	116.43	4.34	*3.1*
160.00	20.31	14.40	125.29	18.97	11.40	129.63	4.34	*2.7*
180.00	25.31	16.20	138.49	23.97	13.20	142.83	4.34	*2.4*
200.00	30.31	18.00	151.69	28.97	15.00	156.03	4.34	*2.2*
250.00	42.81	22.50	184.69	41.47	19.50	189.03	4.34	*1.7*
300.00	55.31	27.00	217.69	53.97	24.00	222.03	4.34	*1.4*
325.00	61.56	27.45	235.99	60.22	26.25	238.53	2.54	*0.8*
350.00	67.81	27.45	254.74	66.47	28.50	255.03	0.29	*0.0*
375.00	74.06	27.45	273.49	72.72	29.22	273.06	-0.43	*-0.1*
400.00	80.31	27.45	292.24	78.97	29.22	291.81	-0.43	*-0.1*
500.00	112.83	27.45	359.72	106.63	29.22	364.15	4.43	*0.9*
600.00	152.83	27.45	419.72	146.63	29.22	424.15	4.43	*0.7*

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

[2] Calculations assume that only the husband has earned income.

TABLE 7

MARRIED COUPLE WITH TWO CHILDREN - NET WEEKLY INCOME

INCOME TAX, NATIONAL INSURANCE CONTRIBUTIONS AND CHILD BENEFIT

Weekly income in 1988-89					Weekly income in 1989-90				Increase in income after tax, NIC and child benefit	
Income[1]	Child benefit	Income tax	NIC[2]	Net income[3]	Child benefit	Income tax	NIC[2] post-October 1989	Net income[3]	Increase in income	As percentage of total income
£	£	£	£	£	£	£	£	£	£	per cent
80.00	14.50	0.31	5.60	88.59	14.50	0.00	4.20	90.30	1.71	*2.1*
90.00	14.50	2.81	6.30	95.39	14.50	1.47	5.10	97.93	2.54	*2.8*
100.00	14.50	5.31	7.00	102.19	14.50	3.97	6.00	104.53	2.34	*2.3*
120.00	14.50	10.31	10.80	113.39	14.50	8.97	7.80	117.73	4.34	*3.6*
140.00	14.50	15.31	12.60	126.59	14.50	13.97	9.60	130.93	4.34	*3.1*
160.00	14.50	20.31	14.40	139.79	14.50	18.97	11.40	144.13	4.34	*2.7*
180.00	14.50	25.31	16.20	152.99	14.50	23.97	13.20	157.33	4.34	*2.4*
200.00	14.50	30.31	18.00	166.19	14.50	28.97	15.00	170.53	4.34	*2.2*
250.00	14.50	42.81	22.50	199.19	14.50	41.47	19.50	203.53	4.34	*1.7*
300.00	14.50	55.31	27.00	232.19	14.50	53.97	24.00	236.53	4.34	*1.4*
325.00	14.50	61.56	27.45	250.49	14.50	60.22	26.25	253.03	2.54	*0.8*
350.00	14.50	67.81	27.45	269.24	14.50	66.47	28.50	269.53	0.29	*0.0*
375.00	14.50	74.06	27.45	287.99	14.50	72.72	29.22	287.56	-0.43	*-0.1*
400.00	14.50	80.31	27.45	306.74	14.50	78.97	29.22	306.31	-0.43	*-0.1*
500.00	14.50	112.83	27.45	374.22	14.50	106.63	29.22	378.65	4.43	*0.9*
600.00	14.50	152.83	27.45	434.22	14.50	146.63	29.22	438.65	4.43	*0.7*

[1] Calculations assume that only the husband has earned income.

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

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

TABLE 8

SINGLE PERSONS AND MARRIED COUPLES

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

Charge for 1988-89			Proposed charge for 1989-90			
Income £	Income tax £	Percentage of total income taken in tax per cent	Adjusted income[1] £	Income tax £	Percentage of total income taken in tax per cent	Percentage change in net income per cent
SINGLE PERSONS						
3,000	99	3.3	3,225	110	3.4	7.4
4,000	349	8.7	4,300	379	8.8	7.4
6,000	849	14.2	6,450	916	14.2	7.4
8,000	1,349	16.9	8,600	1,454	16.9	7.4
10,000	1,849	18.5	10,750	1,991	18.5	7.5
12,000	2,349	19.6	12,900	2,529	19.6	7.5
15,000	3,099	20.7	16,125	3,335	20.7	7.5
20,000	4,349	21.7	21,500	4,679	21.8	7.5
25,000	6,063	24.3	26,875	6,531	24.3	7.4
30,000	8,063	26.9	32,250	8,681	26.9	7.4
40,000	12,063	30.2	43,000	12,981	30.2	7.5
50,000	16,063	32.1	53,750	17,281	32.2	7.5
60,000	20,063	33.4	64,500	21,581	33.5	7.5
70,000	24,063	34.4	75,250	25,881	34.4	7.5
MARRIED COUPLES[2]						
5,000	226	4.5	5,375	250	4.7	7.4
6,000	476	7.9	6,450	519	8.0	7.4
8,000	976	12.2	8,600	1,056	12.3	7.4
10,000	1,476	14.8	10,750	1,594	14.8	7.4
12,000	1,976	16.5	12,900	2,131	16.5	7.4
15,000	2,726	18.2	16,125	2,938	18.2	7.4
20,000	3,976	19.9	21,500	4,281	19.9	7.5
25,000	5,467	21.9	26,875	5,895	21.9	7.4
30,000	7,467	24.9	32,250	8,045	24.9	7.4
40,000	11,467	28.7	43,000	12,345	28.7	7.4
50,000	15,467	30.9	53,750	16,645	31.0	7.4
60,000	19,467	32.4	64,500	20,945	32.5	7.5
70,000	23,467	33.5	75,250	25,245	33.5	7.5

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

[2] Calculations assume that only the husband has earned income.

TABLE 9

SINGLE PERSONS AND MARRIED COUPLES - INCOME ALL EARNED - WEEKLY FIGURES

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

Charge for 1988-89				Proposed charge for 1989-90 post-October 1989				
Income	Income tax	NIC[1]	Percent. of total income taken in tax and NIC	Adjusted income[2]	Income tax	NIC[1] post-Oct. 1989	Percent. of total income taken in tax and NIC	Percent. change in income after tax and NIC
£	£	£	per cent	£	£	£	per cent	per cent
SINGLE PERSONS								
50.00	0.00	2.50	*5.0*	**53.75**	0.05	2.68	*5.1*	*7.4*
60.00	2.48	3.00	*9.1*	**64.50**	2.74	3.22	*9.2*	*7.4*
70.00	4.98	4.90	*14.1*	**75.25**	5.42	3.77	*12.2*	*9.9*
80.00	7.48	5.60	*16.4*	**86.00**	8.11	4.74	*14.9*	*9.3*
90.00	9.98	6.30	*18.1*	**96.75**	10.80	5.70	*17.1*	*8.9*
100.00	12.48	7.00	*19.5*	**107.50**	13.49	6.67	*18.8*	*8.5*
120.00	17.48	10.80	*23.6*	**129.00**	18.86	8.61	*21.3*	*10.7*
140.00	22.48	12.60	*25.1*	**150.50**	24.24	10.54	*23.1*	*10.3*
160.00	27.48	14.40	*26.2*	**172.00**	29.61	12.48	*24.5*	*10.0*
180.00	32.48	16.20	*27.0*	**193.50**	34.99	14.41	*25.5*	*9.7*
200.00	37.48	18.00	*27.7*	**215.00**	40.36	16.35	*26.4*	*9.5*
250.00	49.98	22.50	*29.0*	**268.75**	53.80	21.18	*27.9*	*9.2*
300.00	62.48	27.00	*29.8*	**322.50**	67.24	26.02	*28.9*	*8.9*
325.00	68.73	27.45	*29.6*	**349.38**	73.96	28.44	*29.3*	*7.9*
350.00	74.98	27.45	*29.3*	**376.25**	80.67	29.22	*29.2*	*7.6*
375.00	81.23	27.45	*29.0*	**403.12**	87.39	29.22	*28.9*	*7.6*
400.00	87.48	27.45	*28.7*	**430.00**	94.11	29.22	*28.7*	*7.6*
500.00	124.29	27.45	*30.3*	**537.50**	133.87	29.22	*30.3*	*7.5*
600.00	164.29	27.45	*32.0*	**645.00**	176.87	29.22	*32.0*	*7.5*
MARRIED COUPLES[3]								
80.00	0.31	5.60	*7.4*	**86.00**	0.47	4.74	*6.1*	*9.0*
90.00	2.81	6.30	*10.1*	**96.75**	3.15	5.70	*9.1*	*8.7*
100.00	5.31	7.00	*12.3*	**107.50**	5.84	6.67	*11.6*	*8.3*
120.00	10.31	10.80	*17.6*	**129.00**	11.22	8.61	*15.4*	*10.4*
140.00	15.31	12.60	*19.9*	**150.50**	16.59	10.54	*18.0*	*10.1*
160.00	20.31	14.40	*21.7*	**172.00**	21.97	12.48	*20.0*	*9.8*
180.00	25.31	16.20	*23.1*	**193.50**	27.34	14.41	*21.6*	*9.6*
200.00	30.31	18.00	*24.2*	**215.00**	32.72	16.35	*22.8*	*9.4*
250.00	42.81	22.50	*26.1*	**268.75**	46.15	21.18	*25.1*	*9.1*
300.00	55.31	27.00	*27.4*	**322.50**	59.59	26.02	*26.5*	*8.8*
325.00	61.56	27.45	*27.4*	**349.38**	66.31	28.44	*27.1*	*7.9*
350.00	67.81	27.45	*27.2*	**376.25**	73.03	29.22	*27.2*	*7.6*
375.00	74.06	27.45	*27.1*	**403.12**	79.75	29.22	*27.0*	*7.6*
400.00	80.31	27.45	*26.9*	**430.00**	86.47	29.22	*26.9*	*7.6*
500.00	112.83	27.45	*28.1*	**537.50**	121.63	29.22	*28.1*	*7.5*
600.00	152.83	27.45	*30.0*	**645.00**	164.63	29.22	*30.1*	*7.5*

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

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

[3] Calculations assume that only the husband has earned income.

TABLE 10

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

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

1988-89					1989-90					
Income[1]	Child Benefit	Income tax	NIC[2]	Net income[3]	Adjusted income[4]	Child benefit	Income tax	NIC[2] post-October 1989	Net income[3]	Percentage change in net income
£	£	£	£	£	£	£	£	£	£	per cent
70.00	14.50	0.00	4.90	79.60	**75.25**	14.50	0.00	3.77	85.98	*8.0*
80.00	14.50	0.31	5.60	88.59	**86.00**	14.50	0.47	4.74	95.29	*7.6*
90.00	14.50	2.81	6.30	95.39	**96.75**	14.50	3.15	5.70	102.40	*7.3*
100.00	14.50	5.31	7.00	102.19	**107.50**	14.50	5.84	6.67	109.49	*7.1*
120.00	14.50	10.31	10.80	113.39	**129.00**	14.50	11.22	8.61	123.67	*9.1*
140.00	14.50	15.31	12.60	126.59	**150.50**	14.50	16.59	10.54	137.87	*8.9*
160.00	14.50	20.31	14.40	139.79	**172.00**	14.50	21.97	12.48	152.05	*8.8*
180.00	14.50	25.31	16.20	152.99	**193.50**	14.50	27.34	14.41	166.25	*8.7*
200.00	14.50	30.31	18.00	166.19	**215.00**	14.50	32.72	16.35	180.43	*8.6*
250.00	14.50	42.81	22.50	199.19	**268.75**	14.50	46.15	21.18	215.92	*8.4*
300.00	14.50	55.31	27.00	232.19	**322.50**	14.50	59.59	26.02	251.39	*8.3*
325.00	14.50	61.56	27.45	250.49	**349.38**	14.50	66.31	28.44	269.13	*7.4*
350.00	14.50	67.81	27.45	269.24	**376.25**	14.50	73.03	29.22	288.50	*7.2*
375.00	14.50	74.06	27.45	287.99	**403.12**	14.50	79.75	29.22	308.65	*7.2*
400.00	14.50	80.31	27.45	306.74	**430.00**	14.50	86.47	29.22	328.81	*7.2*
500.00	14.50	112.83	27.45	374.22	**537.50**	14.50	121.63	29.22	401.15	*7.2*
600.00	14.50	152.83	27.45	434.22	**645.00**	14.50	164.63	29.22	465.65	*7.2*

[1] Calculations assume that only the husband has earned income.

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

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

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

TABLE 11

MARRIED COUPLES - HUSBAND AND WIFE BOTH WORKING

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

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

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

[2] Denotes wife's earnings election beneficial.

DRAFT

STOCK LENDING: EXTENSION TO LLOYD'S UNDERWRITERS

The Chancellor proposes in his Budget to change the law so that Lloyd's underwriters can be approved to lend stock to market makers without tax penalty.

The change will give Lloyds members the opportunity to earn fees by stock lending. It will also improve the liquidity of the market in some stocks (particularly the gilts market) by providing a new source of stock available for borrowing by market makers.

DETAILS

<u>Stock lending</u>

1. Market makers in securities may need to sell securities which they do not possess in order to meet demand fro the securities. They may then borrow the securities from an institutional holder in order to deliver them to the purchasers, returning equivalent securities to the institution later.

2. If there were no special rules, the transfer of the securities from the institutional holder to the market maker and the later return of them would be disposals for tax purposes and give rise to a capital gains tax charge (or a corporation tax charge on profits in the case of a financial trader.) However, the Board of Inland Revenue [or, in the case of gilts, the Bank of England] may approve arrangements for lending stock under which the transfers are ignored for capital gains tax and corporation tax on profits.

<u>Application to Lloyd's</u>

3. It has not, hitherto, been possible to approve arrangements in which Lloyd's underwriters lend stock to

market makers. This is because of the way the present tax rules apply to their capital gains tax and accrued income scheme liabilities. Under these rules, to match the administrative arrangements of Lloyd's, all securities held by a syndicate in a premium trust fund are treated for the purposes of capital gains tax and the accrued income scheme as disposed of at the end of each accounting period (the calendar year). But stock which had been lent to a market maker would no longer itself be held in the premiums trust fund and would therefore be outside this deemed disposal for capital gains tax and accrued income scheme. If arrangements for stock lending were approved the rules for calculating gains on stock lent out over the end of the year would not work properly.

4. The Chancellor therefore proposes to include stock lent under approved lending arrangements within the deemed disposal rules for Lloyd's underwriters. There will be no charge on the stock when it is lent or returned but there will be a charge on it at the end of the year. Any fee received by the underwriter will be taxable. This will enable stock lending arrangements involving Lloyds to be approved which will in turn make it possible for Lloyd's underwriters to take part in stock lending business. [Timing]

5. At the same time the Chancellor proposes to correct a couple of minor errors in the legislation empowering the Inland Revenue to make regulations affecting the administrative arrangements for taxing Lloyd's.

NOTES FOR EDITORS

The mechanism under which the Board of Inland Revenue can approve arrangements for stock lending are of long standing. They will shortly be the subject of regulations to be made under powers contained in Section 61 of the Finance Act 1986.

TEXT SENT TO FST FOR COMMENT 21/2

BUDGET CONFIDENTIAL

DRAFT PRESS RELEASE

SUBCONTRACTOR SCHEME: CONSULTATION ON REDUCING REQUIREMENTS

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

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

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

DETAILS

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

Voucher requirements

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

6. The consultative document suggests that:

- the first and last payments under a contract should remain supported by vouchers, but that no voucher be provided for intervening payments until the running total exceeds, say, £2,500.

- vouchers be provided by the subcontractor by the time of payment rather than within a week after payment

- vouchers be sent by the contractor to the Inland Revenue monthly rather than weekly

- there be a limit, say of £10,000, on the amount a single voucher may cover: so larger payments would need more than one voucher

- the Inland Revenue should be notified by the contractor of the first payment under a contract made to a subcontractor which is a large company with a '714C' certificate.

Deduction scheme paperwork

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

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

Direct issue of certificates and vouchers

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

Activities covered by subcontractor scheme

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

Compliance costs

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

[Further steps

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

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

NOTES FOR EDITORS

1. There is a special regime for subcontractors in the construction industry. This regime does not extend to householders and others commissioning small works, but otherwise applies widely to self-employed subcontractors and those engaging them.

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

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

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

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

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

DRAFT PRESS NOTICE

[3x]

PERSONAL EQUITY PLANS IMPROVED

The Chancellor proposes in his Budget a major package of improvements to Personal Equity Plans (PEPs). The main features are:-

- the overall (annual) investment limit is to be increased from £3,000 to £4,800;
- the annual limit for investment in authorised unit trusts and investment trusts is to be raised from £540 (or up to £750 in some circumstances) to £2,400;
- the scheme will be better targeted with a new requirement that unit or investment trusts within PEPs must invest mainly in UK equities;
- a facility will be introduced to allow new issue shares, including future privatisation issues, to be brought within plans;
- significant simplifications are to be made to the administration of the scheme.

The starting date for the changes will be 6 April 1989, but unit and investment trusts will be given until 5 April 1990 to meet the requirement to invest mostly in UK equities.

As a transitional measure, plan managers will be able to continue on the basis of the existing rules, if they wish, until 31 December 1989.

The Government believes that these changes will give a significant boost to PEPs. They will make them more attractive to investors - particularly smaller investors - by allowing them considerably greater flexibility. At the same time the simplifications will help keep plan managers' costs - and their charges to investors - to a minimum.

/DETAILS OF ...

DETAILS OF THE PROPOSALS

Increase in the amount that can be invested

1. The overall investment limit is the annual maximum limit for subscription to a plan. To make full use of the limit, the plan manager must invest substantially in UK shares on the investor's behalf. When the increase in limit takes effect on 6 April, it will have been doubled from £2,400 to £4,800 since the scheme was introduced two years ago.

Unit trusts and investment trusts within PEPs

2. At present, the annual limit for investment in authorised unit trusts and investment trusts operates on the basis of a fairly small limit (currently £540) where a plan invests wholly in unit or investment trusts. A larger limit (up to £750) is possible provided the investment in the unit or investment trust forms no more than a quarter of the overall PEP investment for the year. But there is no stipulation as to what the unit or investment trust may invest in.

3. For the future, the investment limit is to be raised significantly to £2,400: the rule described above will be simplified so that the new limit applies regardless of whether or not the unit or investment trust holding forms part of a larger portfolio within a plan.

4. At the same time the Government want to continue the present targeting of the relief. So, after a 12-month transitional period, investment through a PEP in such trusts will be limited to those trusts which themselves invest at least 75 per cent in UK equities. This maintains the original intention of the scheme to encourage investment in British industry.

New issues and privatisation shares

5. The PEP regulations at present require that investment in plans must be in cash: shares already held cannot be transferred into a plan. This rule is to be relaxed to allow individuals who wish to subscribe for new issue shares, including privatisation issues, to do so outside their PEP. Then, when the allocation has been announced, they will be able to transfer all or part of their allocation into their plan, so that they can benefit from tax-free dividends, and tax-free capital gains. The value of the shares (at the offer price) will count towards the overall investment limit, and investors will have 30 days from the day the share allocation is announced to make up their minds.

6. The following example shows how the new provision could work:-

1989-90

Amount of investment permitted overall	£4,800
within which unit/investment trust limit	£2,400

/Miss A

Miss A takes out a PEP on 29 April 1989. She invests:-

Equities	£1,000	
Unit trust	1,200	
Investment trust	1,200	
Total		£3,400
Amount still available for investment in equities		£1,400

In June 1989, Miss A applies for 1,000 new issue shares at an offer price of 200p each.

If, when the shares are allocated, she receives the full 1,000 shares at a cost of £2,000, she may transfer a maximum of 700 shares into her plan at a value of £1,400. She may not then make any further subscription, or transfer any further new issue shares into the plan until 6 April 1990.

If, when the shares are allocated, she receives only 500 shares, she may transfer all 500 shares into her plan at a value of £1,000. If she wishes, she can make a further subscription of up to £400 for further equities (or transfer other new issue shares to the same value) into her plan before 5 April 1990.

7. It will be for plan managers to decide whether or not to offer this new facility. Even where a plan manager at present offers PEPs investing only in unit or investment trusts, he will be able to offer a facility for investors to bring in new-issue equities - up to the overall investment limit - over and above the unit or investment trust holding. The plan manager will be able, if he wishes, to offer a custodial facility for the new shares: he will simply hold them, and claim back tax credits on behalf of the investor, until the investor wants to sell them.

Greater simplicity and flexibility

8. The proposed simplifications are as follows:-

- The "minimum holding period" is to be abolished. Thus, there will no longer be a rule that all plans must be held for at least a full calendar year in order to qualify for the tax reliefs.

- The maximum permitted investment will be worked out on the basis of the fiscal year (6 April to 5 April), rather than on the calendar year basis. There will be optional transitional provisions for those already holding PEPs.

- The "cash holding rules" are to be abolished. At present these rules place limits on the amount of cash, as opposed to shares, that can be held in a plan. For the future, there will be no specific rules on how much cash can be held, and for how long. Instead, all interest arising on such cash will be subject to composite rate tax in the same way as bank or building society deposits.

- The Inland

- The Inland Revenue will no longer require plan managers to submit PEP application forms for approval.

- The amount of information required from plan managers by the Inland Revenue will be reduced.

- The rule which prevents switching from an investment in shares to an investment in authorised unit trusts or investment trusts within a plan is to be relaxed. A provision will be introduced which will allow limited switching from shares into unit or investment trusts: it will be a condition that the value of the holding in unit and investment trusts immediately after the switch is not more than half the value of the whole PEP portfolio.

Cost

9. The cost of the proposals is expected to be £5 million in 1989-90, and £10 million in 1990-91, rising to perhaps £30 million after 5 years.

Amendment of Regulations

10. The detailed rules for personal equity plans are set out in statutory regulations. The Chancellor's proposals will therefore be introduced as amending regulations rather than in the Finance Bill. The regulations are due to be made [today].

NOTES FOR EDITORS

Personal Equity Plans

1. Personal Equity Plans (PEPs) were introduced in the 1986 Budget to encourage investment in shares in UK companies. Dividends arising on shares and units held in a plan are entirely free of income tax; and there is no capital gains tax charge. Until now, it has been a requirement that - to qualify for the tax benefits - investments must be retained in the plan for at least a complete calendar year after the year the investment is made; but this requirement is now to be abolished.

2. Investors do not need to keep records, or declare their dividends and gains on their tax returns. So PEPs do not give rise to any involvement with the Inland Revenue. The administration is carried out by authorised plan managers. Investors may put a lump sum into a plan or invest a regular amount. They may subscribe to an "own-choice" plan (where the investor decides what shares or units to buy) or a "managed" plan (where the plan manager makes the investment decisions).

/Take-up ...

Take-up of PEPs

3. Since the scheme started in 1987, it is estimated that over 375,000 plans have been taken out, with a total investment [approaching £700 million].

Other changes

4. On 11 January 1989 the Government announced a change which enabled plan managers to claim back from the Inland Revenue on behalf of investors tax credits on all dividends, regardless of whether the dividends are passed on to the investor or reinvested in the plan. Previously, only dividends reinvested in the plan were entitled to the relief.

The Treasury regulations are to be amended to reflect this change. In the meantime, the Inland Revenue have implemented the change by extra-statutory concession.

5. When the Treasury regulations are amended to implement the changes announced today, they will also be amended to remove some investor-protection measures which are now adequately covered in the rules of the Securities and Investments Boards (or those of the other self-regulatory bodies with which PEP managers have to be registered).

Compliance cost assessments

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

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

DRAFT

REMOVAL OF TAX DISADVANTAGES FACED BY UNIT TRUSTS

The Chancellor proposes in his Budget to introduce from 1 January 1990 a new tax regime for unit trusts which are freely marketable within the European Community under the UCITS directive. This will enable them to compete more effectively with their continental counterparts.

The new system builds on the existing corporation tax regime for most authorised unit trusts. Its main features are:

- Reduction of the corporation tax rate to the basic rate of income tax. So removing any UK tax charge on a trust which cannot be credited to unitholders.
- Relief for expenses of management and interest paid
- Simplicity

The change will reduce the tax bill on unit trusts ~~investment~~ by £20m a year.

DETAILS

1. <u>The UCITS directive</u>

Under a European Community directive, collective investment vehicles that are UCITS (Undertakings for Collective Investment in Transferable Securities) will be able to market their units or shares throughout the whole of the Community from 1 October 1989, in each case subject only to compliance with local marketing regulations. Most UK authorised unit trusts will be UCITS.

2. <u>Present tax arrangements</u>

Authorised unit trusts (other than gilt trusts which invest only in UK interest bearing securities) are taxed like companies. They are liable to mainstream corporation tax on the income they receive. And they have to pay advance corporation tax on the income they have available for distribution. The unitholder gets a dividend to which a tax credit is attached. Under the normal corporation tax rules, the trust is allowed to deduct management expenses and interest paid in arriving at its taxable income.

Gilt trusts pay income tax at the basic rate on their income, but get no relief for management expenses or interest paid. Amounts available for distribution are treated as received by unitholders as income on which basic rate tax has already been paid.

MAIN FEATURES OF THE PROPOSED NEW SYSTEM FOR UNIT TRUSTS

3. <u>All unit trusts that are UCITS to be covered</u>

This means gilt trusts that are UCITS will cease to be dealt with under an income tax regime. The switch will take place for the first distribution period of the trust starting after 31 December 1989. As a result of this switch gilt trusts will be able to get tax relief for expenses of management and for interest paid.

4. <u>Lower rate of corporation tax</u>

The income of unit trusts that are UCITS will be charged to corporation tax at a rate equal to the basic rate of income tax as from 1 January 1990. This means that the only UK tax payable by the trust will be fully offsettable (by repayment or credit) against the unitholders' tax liability. The main beneficiaries will be trusts investing a proportion of their money in bonds or fixed interest securities where before the Budget the trust paid tax at 35% on the income but the unitholder only received a credit of 25%.

5. <u>Corporate unitholders</u>

Companies who invest in unit trusts will be liable to corporation tax on the income they receive, but they will get credit at the basic rate of income tax for the tax paid by the trust. The main corporate investors in unit trusts are life assurance companies. Their rate of corporation tax will also fall to the same as the basic rate of income tax from 1 January 1990. So their tax liability on unit trust income will be covered by the tax credited as paid. Small companies paying the reduced rate of corporation tax will be in the same position. Other companies will ~~ahve~~ have to pay the difference between the full rate of corporation tax and the basic rate of income tax credited as paid on the unit trust income.

NOTES FOR EDITORS

1. The new system will start from 1 January 1990 to tie in with the commencement of the proposed new regime for life assurance companies. This is to avoid the need for administratively costly transitional provisions in the very short period between 1 October 1989 and 1 January 1990.

2. Authorised unit trusts that are not UCITS and investment trusts are not included in the new regime since they cannot be marketed in Europe and because comparable European vehicles cannot be marketed in the UK by virtue of the UCITS directive.

3. Most European countries apply a "transparent" regime for collective investment schemes. The taxayer is taxed as if he held a pro rata share of the underlying asset, but does effectively get tax relief for management expenses. The proposed

tax regime effectively achieves the same result, but avoids the complexities of transparency. In particular, it avoids the need for unit trusts to identify the extent to which distributions are derived from different types of income and provide details ~~of~~ to each unitholder.

4. The UCITS directive is the European Communities Council directive of 20 December 1985 (85/611/EEC) as amended by directive 88/220/EEC of 22 March 1988.

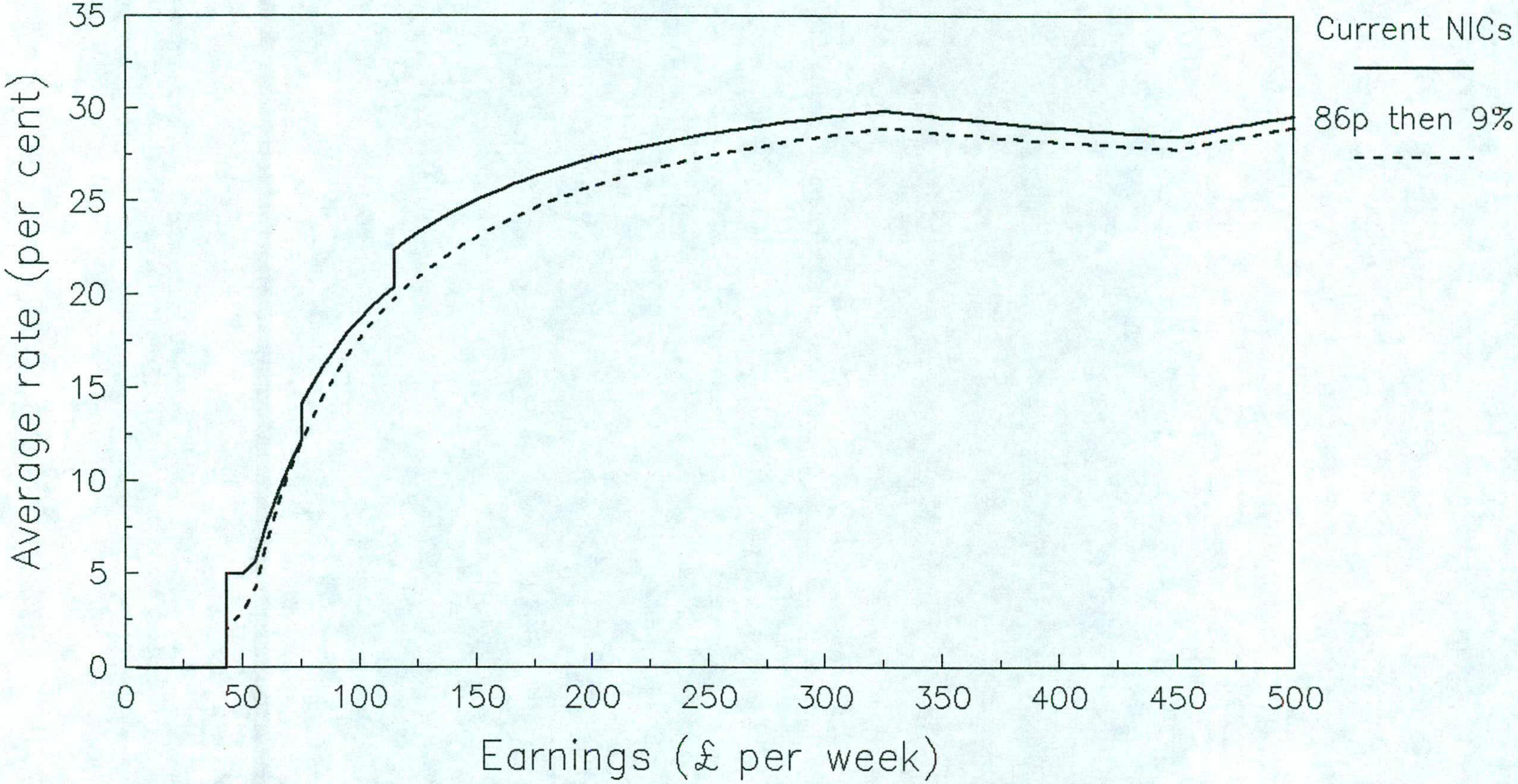
5. <u>Compliance Cost Assessment</u>

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

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

Average Income tax and NIC rates

Single Person



Assumes no allowances or reliefs other than the personal allowances