

PREM19

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ECONOMIC POLICY

(executive perks)

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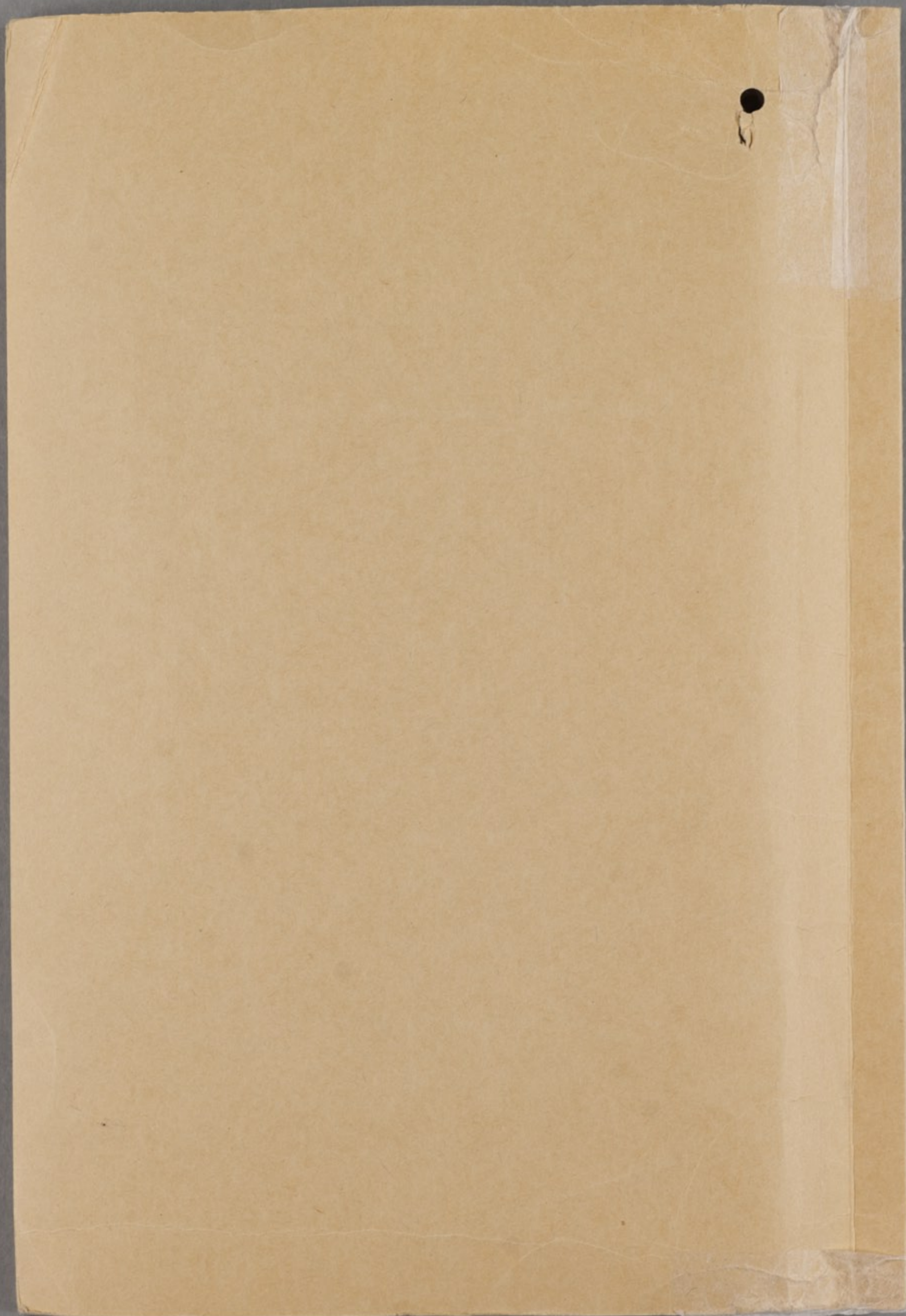
Controls over Executive perks in the private and public sector.

ECONOMIC POLICY

July 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
25-7-79							
26-7-79							
1-8-79							
8-8-79							
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4-9-79							
12-9-79							
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PREM 19/40





PA
MS

With the Compliments
of the
Minister of State

Ps/Home Secretary

Copy of the Minister of State's speech
at the Cante Royal attached. There
was no press release.

Treasury Chambers,
Parliament Street,
SW1P 3AG

36/2 233-3429

Max Felstead
18 December 1979

SPEECH

Econ
Blitz

THE GOVERNMENT'S ATTITUDE TOWARDS
TAX AVOIDANCE AND PERKS.

Conference - Accountants' Weekly - Cafe Royal
Thursday 13 December,

1. It is a great pleasure for me to be invited to speak at this conference. The pleasure is heightened by the fact that I speak under the chairmanship of Mr Dick Tavern who I have known professionally and politically for many years and that I follow Mr ^{Tal} Gerald Barnett whose resourcefulness and adroitness as Chief Secretary I had many occasions to admire and with whom I have had many amicable passages of arms on fiscal questions - I recall particularly those on clause 27 of the Finance Bill 1978.

I must admit to having an interest in the theme of this conference. Naturally as a member of the Revenue Bar who was privileged to appear for tax payers and for for the Revenue from time to time I developed professional theories. As a back benchwin the House of Commons I developed a political view.

And as a member of the present administration I have had to consider the administrative implications.

2. The theme of my talk has been set by the Chairman with judicious ambiguity and breadth as a Government view of tax avoidance. One of the difficulties of this whole question is that of definition. Tax avoidance may mean, depending on the audience and the context, anything from the use of an accumulating settlement to some highly elaborate scheme with little or no commercial substrata. If I may, I would like on this occasion to go beyond discussions of a technical nature to take as my theme "Taxation by Consent".

I hasten to say that I am not suggesting that there is any way to change human nature so fundamentally that we will all actually relish paying tax. I leave that to those who take a more visionary view of politics than myself. You will recall that oft-sited well worn passage from Burke: "to tax and to please, any more than to love and be wise, is not given to man". Quite naturally the citizen looks to pay the least possible tax for the best possible services and expects the Government of the day to meet these twin objectives. However I am naive enough to believe that in the final analysis people are prepared to shoulder what they regard as a fair share of a reasonable burden, although what is fair and what is reasonable may involve highly subjective judgement.

THE GOVERNMENT'S ATTITUDE TOWARDS TAX AVOIDANCE

1. I have been asked to speak on the theme of the Government view of tax avoidance. As practitioners, you will I know all have your own views on what is meant by avoidance, but it is not my intention to attempt a definition. If I may, I would like to widen the topic beyond discussions of a technical nature. I take as my text the ^{truth} aim of taxation by consent.

2. I hasten to say that I am not suggesting that there is any way to change human nature so fundamentally that we will all actually enjoy paying tax. You will recall what Burke felt on this prospect: "To tax and to please, any more than to love and be wise, is not given to men". Quite naturally the citizen looks to pay the least possible tax for the best possible services, and expects that the Government should meet these twin objectives. However, I believe that in the final analysis people are prepared to shoulder what they regard as a fair share of a reasonable burden of tax, ^{which} ^{is} what is fair a word is naturally derived by my subjective judgment.

3. There follow, I think, two important implications.

4. First, if the public are to accept the level of tax imposed, the Government must show that the revenue is being well spent. This means that public expenditure must be carefully controlled. It is not reasonable to expect tax to be paid willingly, when the public feel that their money is being wasted or used in an extravagant manner. Centuries ago our forefathers raised great cathedrals to the glory of God; it is no part of this Government's policy that some of their children should raise palaces which are symbols of the vanity of Government whether central or local. ^{Francis in the Rome state was to be at the end of his Administration}

5. The second and more general implication is that there are very real limits to the total amounts which people are prepared to pay for publicly provided services, out of taxation. Taxation is paid at the cost of what is left in people's pockets, to spend as they wish. Some commentators have suggested that this limit is approached when the total level of taxation reaches 50 per cent of GNP, but I do not myself believe that it is helpful to try to state arbitrary limits of this kind. Indeed, the critical figure, if one does exist, probably depends

Handwritten notes:
This is a
difficult
unusually
difficult
I must have
to be able
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beginning

on the extent to which real incomes are growing - which is a measure of national prosperity. Nevertheless, I think that the mood of the country over the last few years leaves little room for doubt that such limits do exist, and make themselves felt.

6. This trade off, if I may so term it, between public and private spending is at the root of the whole political process in a democratic society. I have indicated the movement of opinion which I believe has taken place in our own country, but there are examples of the same shift in other countries. Perhaps the most striking example is the passing in California of Proposition 13, which dramatically reduced property taxes last year, and has been followed this year by a vote for further limits on public spending in future years.

What I have heard was from Peter Hoffmann Laffer /
that Govt actually has a PSBR to cushion but not yet signed as a budget measure

7. There is a heavy responsibility on any Government that tries to impose a heavier burden of tax than the taxpayers are persuaded is fair and reasonable. I do not intend today to develop further the consequences for incentives, pay claims and the creation of wealth in general, but I would like to discuss the implications for the tax system.

8. If a Government seeks to impose tax burdens which people generally feel are unfair and unreasonable, it will undoubtedly create conditions in which avoidance and evasion can flourish. By avoidance, of course, I mean the use of various devices to reduce tax liability; and by evasion, I mean an outright breach of the law; and then there is the shadowy area of deliberate delay and obfuscation in which people operate at or beyond the margins of the law. In some ways the most serious criticism of unjust laws is that they bring the rule of law itself into disrepute - *perhaps what has happened in fields beyond that of taxation*

9. A further consequence of a tax burden which is felt to be unjust, and of which I have been particularly conscious in the last few months, as a Treasury Minister, is that Governments which seek to impose an intolerably heavy tax burden attract public resentment, not only against themselves, but also against those officials whose duty it is to collect the tax laid down by Parliament. Although we know that logically this is unfair, yet

deed the Laffer curve is in danger of becoming
e of the most widely sighted political-fiscal
ositions, though I have heard whispers that
ofessor Laffer, who does not actually have
PSBR to consider, does not yet regard us as
s most promising pupils.

The Multinational Tax System is any (or all) of these.

it remains a very human reaction to "shoot the messenger who brings bad news." - *The Multinational Tax System is any (or all) of these.*

And

10. So far, I have talked about the total burden of tax, but the distribution and incidence of tax are also crucial. Even if the total burden of tax is not high by absolute standards, there are circumstances in which individuals will not accept the tax system as fair and reasonable. First, if marginal rates are excessive - as they clearly were when this Government took office. Second, if the liabilities are being increased sharply, arbitrarily and without the explicit consent of Parliament - as happened earlier this decade, when basic and higher rate tax thresholds and bands were not adjusted for the effects of inflation. The third situation where individuals feel resentment is where they perceive a sharp discrepancy between the treatment of different activities, or different types of organisations, of a kind which cannot readily be justified on objective criteria. I might cite here the recent ^{circumstances} protests in the Republic of Ireland by PAYE taxpayers who were angry at the tax exemptions given to farmers.

*the way
may be
different*

11. It follows then, that if the Government is not to create the conditions in which legal avoidance and illegal evasion tend to flourish, the desirable tax structure is one which is characterised by low rates; a broad base; and a minimum of special exemptions. But if the tax structure varies from this ideal, then there is a double penalty to bear. First, tax rates must be higher to raise any given amount of revenue, and this gives greater incentive to avoidance. Secondly, special incentives or tax shelters create an incentive to arrange businesses in order to take advantage of them, even - it may be - if there is a cut in real commercial pre-tax profits.

12. When we look at the way in which the tax system has developed over the past years, it is scarcely surprising that the combination of the stick of high tax rates behind and the carrot of special tax advantage in front has caused so much effort and ingenuity to be applied to minimising tax rather than to maximising profits.

13. Up to this point I have been discussing the conditions necessary to ensure that the tax system does not itself become a kind of forcing house for avoidance, and I have suggested the need for a simple system which, because it is broadly based, can yield a given necessary amount of revenue at rates of tax lower than would otherwise be the case. Treasury Ministers share a continuing objective to develop the tax system in that direction for the benefits will arise not merely in the field of avoidance, but in the general rise in economic welfare.

14. However, although we may strive to find a tax structure which is by general consensus fair and reasonable, we shall, I venture to say, never in the real world create a tax system which no-one seeks to avoid.

15. It is, unfortunately, a fact of life that there will always be people who seek, by legal avoidance, or illegal evasion, to reduce their tax burden, however low the rates. Evasion and avoidance existed when tax rates were a fraction of what they are today. Undoubtedly there were those who felt the need to use such methods in for example, 1915, when the rate of tax on earned income was 3 shillings, or 15 pence, in the pound or in 1920 when the highest rate was charged at 9 shillings, or 45 pence in the pound. At the present time we see much effort being put into schemes to avoid Capital Gains Tax, which is charged at a maximum rate of 30 per cent. Given that no-one actually likes paying tax, there is always the temptation to take the benefits of public services funded by taxation, and leave others to pay for them.

16. A second unpalatable fact is that the dream of a tax system which is at the same time simple, comprehensive, and neutral in its effects must remain a dream. Happily we have now left behind us the fashions of the 1960's when people nourished quite naive ideas about how possible or desirable it was to use tax changes as instruments of industrial and social engineering. Nevertheless it must be admitted that the present complexity of the tax system reflects arguments which have persuaded successive Governments and successive Houses of Commons that there were

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strong grounds for singling out different classes of income or activity and different classes of person for different tax treatment.

17. It appears then that the Government may realistically hope to create conditions which do not actually encourage tax avoidance. But it cannot realistically hope to create conditions in which avoidance will not take place at all.

18. So the Government must not hesitate to take firm action, when necessary, to deal with avoidance when it happens. To fail to do so, would lead back into the downward spiral of erosion of the tax base and higher rates of tax to yield the same revenue, followed by more avoidance and evasion.

19. However, it is not ^{the} ~~the~~ Government's intention to argue for overkill. We are well aware that one does not need a sledgehammer to crack a nut. But in passing, I might note the unfortunate pattern of the cycle of avoidance and counter-avoidance. Unscrupulous exploitation of a tax loophole inevitably leads to counter-action by the authorities. But all too often, such action, to be sure of being effective, has also affected normal commercial business. There is often a dilemma here, because if Parliament is scrupulous to avoid affecting the innocent, a gap may be left through which the avoider is only too ready to squeeze. *On another occasion it might be advantageous*

20. At this point, I might perhaps say something in answer to the argument that "the tax system breathes through its loopholes" or, as a recent pamphlet has argued, that both avoidance and evasion bring positive economic benefits. I have no doubt that these are ~~thoroughly~~ ^{decidedly} bad answers to the problems posed by a bad tax system. I am a firm believer in the market economy, by which I mean that people should have the freedom to choose what they do and how they earn their living; what they buy and how they spend their wages. Such freedom of choice should be constrained as little as possible by any arbitrary distortions introduced by the tax system or otherwise. With all due respect to the ingenuity of those who seek to argue the contrary, I do not accept that the broader economic interest is enhanced in a

to counter future membership and causes of construction & application adopted by the Govt
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19. On another occasion it might be advantageous to consider fashions in draughtmanship and the canons of construction and application adopted by the courts. Should the courts, for example, be invited in fiscal matters to look at the substance rather than the form of a transaction. Has the Duke of Westminster's case outlived its usefulness?

Justly concerned

situation where people may be discouraged from taking up one job or encouraged to take up another, not on the basis of what they can earn, but on what ~~tax they can escape~~. This cannot be the way towards wealth creation and economic prosperity, nor to the quality of life and mutual respect which is more important than either.

like part comments

21. If we are to achieve the aim of taxation by consent, all our experience shows that there are great risks if major tax avoidance passes unchecked. Schemes which are devised purely for tax advantages, and which have no commercial justification at all cannot be allowed to pass unchallenged. As I have said, the Government ^{firmly} will take ^{firm} action against avoidance when it happens. Not to do so would ^{lead} inevitably to a justifiable loss of confidence in the fairness of the tax system by that vast majority who meet their tax obligations by deduction under PAYE, or by honest payment under Schedule D if self employed. Once the tax system is felt to be unfair, the inevitable and disastrous result is that those who pay tax withdraw their consent. Those who have the opportunity may be tempted to avoidance themselves. Those who do not have the opportunity may be tempted nearer to the shadowy threshold of evasion. The results are all too familiar. The narrowing of the tax base means that rates of tax are higher than would otherwise be necessary to raise a given amount of revenue, whilst even the old rates of tax become less and less acceptable to taxpayers generally.

22. The Government has demonstrated its firm resolve not to continue down this road. Rates of tax on income have been substantially reduced, and the burden has been shared more fairly. If we are to maintain this policy, then it must follow that we shall ^{not hesitate} ~~move~~ quickly and firmly to deal with any abuse.

23. Before I conclude, I would like to take this opportunity to say a few words on a subject of especially topical interest, that of perks. In recent years pay policy and penal taxes have prevented business from giving adequate rewards to skill and enterprise. This has led to the growth of fringe benefits. Such benefits are often an inefficient and wasteful way of

rewards effort, while they may also be divisive, when some people are taxed fully on a benefit and others not at all. As I have stressed, the Government is committed to develop a simpler and more broad-based tax system which can yield a given amount of revenue at lower rates than would otherwise be the case. Such a development must be a benefit to the general economic well-being of the nation, and will lead to a climate in which perks need no longer flourish. There would be an increasing tendency to return to paying people in cash, which they are free to spend as they choose, rather than in kind; and those perks which remain would no longer receive favourable tax treatment.

24. I hope that none of you are tempted to deduce from what I have said that the Government equate perks in general with avoidance. It is certainly not avoidance to provide an employee with a company car available for his private use which is needed for his job as well, although there can be avoidance in the limited area of essentially artificial devices - the so-called "querks". In the long run we must aim to create the right climate for a system under which a remuneration package attracts the same amount of tax whether it is paid wholly in cash or partly in cash and partly in kind. Only then will we achieve any greater degree of fiscal equity, coupled with less economic distortion.

25. We have made a start in increasing incentives by our cuts in taxation, particularly the higher rates. Against this background the Government has begun to review the system of taxing perks, and it was in this context that the Inland Revenue recently issued a paper on the taxation of cars. Any steps to make the taxation of perks more effective will be taken in the light of reductions in the rates of direct tax, and will be part of our overall strategy to improve incentives. It is no part of this strategy to cancel out any advantage from reduction in tax rates by increasing tax on perks.

26. As you are probably aware, cars were chosen as the subject of the consultative paper simply because they are the form of perk most generally available, and thus most suitable for the first round of consultation. This does not mean that other perks will not be considered as well [during our review]. In view of the multifarious ways in which benefits are given at present, we shall have to strike a careful balance between equity and administrative considerations. It is not our intention to introduce a complicated system which would impose excessive burdens on both employers and the Inland Revenue simply to ensure that every single type of perk is taxed. *The failures of the Finance Bills of 1976 + 1977 must provide their own lessons.*

27. I would sum up our attitude towards perks in this way. We feel strongly that it is desirable to encourage as far as possible a return to the old-fashioned system of paying people in cash, and to widen the tax base by removing the favourable treatment given to some perks. But any action that we take on the taxation of perks will be consistent with our overall strategy of improving incentives and rewarding skill and effort.

28. Finally, I return to my theme that in a democratic society taxation can only be levied with the consent of the taxpayer, if not perhaps with his enthusiastic co-operation. I draw three implications from this aim. They are, first that the total of public expenditure should be strictly controlled, and waste eliminated. Second, the total burden and incidence of tax should be felt to be reasonable. Third, the desired structure of the tax system is one which has low rates, a broad base, and a minimum of special exemptions. If we follow these inferences we should, I believe, have gone a long way towards creating conditions in which avoidance does not flourish. But it would be idle to suppose that human nature will have been changed and avoidance eradicated, and so there must be firm action where necessary against avoidance. Only by doing this can we maintain the confidence of the tax-paying public generally that not only does the tax system have a formal structure which is fair and reasonable, but that the burden of tax is being shared fairly in practice.

PERKS

22. Turning now to perks. Business in recent years prevented by pay policy and penal taxes from adequately rewarding enterprise and skill. This led to growth of fringe benefits, often an inefficient, wasteful and divisive way of rewarding effort, taxing some people fully and others not at all. As already said, Government's continuing objective to develop simpler and more broadly-based tax system which can yield a given amount of revenue at lower rates than otherwise the case, so benefiting economic welfare generally. This will create conditions in which perks need no longer flourish; there will be an increasing tendency to return to paying people in cash which they are free to spend as they choose, rather than in kind; and those perks which remain need no longer receive favourable tax treatment.

23. Important to emphasise Government do not regard perks in general as a form of avoidance, except in limited area of essentially artificial devices (the so-called 'querks'). Not avoidance to provide a man with a company car available for his private use which is needed for his job as well. But Government's aim in the long run to create right climate for a system under which a remuneration package attracts the same amount of tax whether paid wholly in cash or partly in cash and partly in kind, so achieving greater fiscal equity and less economic distortion.

24. Having made start in increasing incentives by cutting income tax, especially higher rates, Government have begun to review system of taxing perks, and Revenue paper on cars issued against this background. But no intention to act precipitately. Any steps to make taxation of perks more effective will be taken in the light of reductions in rates of direct tax and as part of the overall strategy of improving incentives. No part of this strategy to cancel out advantage gained through reduction in tax rates by increasing tax on perks.

25. Cars formed the subject of the consultative paper simply because the most generally available form of perk and most suitable for first round of consultation. But this does not mean that other perks will not be considered as well. In view of multifarious ways in which benefits are given, balance must, however, be struck between equity and administrative considerations. No intention of introducing complicated systems imposing burdens on both employers and Revenue simply to ensure that every single type of perk is taxed.

26. Conclusion. Desirable to encourage as far as possible return to old-fashion system of paying people in cash, and to widen the tax base by removing favourable treatment given to some perks. But any action taken on the taxation of perks will be consistent with overall strategy of improving incentives.



10 DOWNING STREET

From the Private Secretary

12 September 1979

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Economic
Policy

PERKS

The Prime Minister has read the draft passage on perks for the Chancellor's speech to the Institute of Directors which you enclosed with your letter of 11 September.

The Prime Minister is worried about the tone of the draft, which in her view gives the impression that the Government intend to increase or introduce the taxation of perks in such a way as to undermine the tax cuts which were given in the Budget. She is not so concerned about those on high incomes, but she believes that there could be a very adverse reaction from those on middle incomes who presently enjoy substantial benefits in kind. She also believes that in any discussion of perks, the implications of increasing taxation thereon for company finance and pay bargaining ought to be taken into account - i.e. if taxation of benefits is increased, companies will have to find additional cash to leave their employees no worse off; and the higher wage and salary increases which this will involve could have repercussions on pay bargaining generally.

The Prime Minister has asked that, as a minimum, the draft should be changed as follows:

- (i) It should rule out explicitly any action on the taxation of perks before the next Budget;
- (ii) it should make clear that any increase in taxes on perks will be part of the overall strategy to reduce taxation in net terms and improve incentives, and that accordingly offsetting action will be taken so as to leave people generally no worse off.

In addition, the Prime Minister could not understand the logic of the last two sentences on page 5.

I am copying this letter to Robin Willis (Board of Inland Revenue).

M A Hall Esq
H.M. Treasury

T. P. LANKESTER

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flm



Prime Minister



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

You asked to see the Chancellor's ^{draft} speech to the Institute of Directors - or rather, the part dealing with perks.

11th September 1979

Dear Tim,

PERKS

....

I enclose a draft passage on perks for the Chancellor's speech to the Institute of Directors on Thursday evening; you will recall that you asked us to clear this with the Prime Minister in your letter of 30th August.

Fly A

This is based on a draft produced by the Chancellor, but incorporates comments which he has not yet seen. He will be working on it overnight.

I am copying this letter to Robin Willis (IR).

Yours ever,

ME

M.A. HALL

T. P. Lankester, Esq.,
No.10 Downing Street.

This seems balanced, and gets over the point that no immediate action is contemplated.
John Betson,
I understand, approves the general line.
Are you content?

TJ
11/9

PM seen
and discussed with her.

TJ
12/9

Wealth is created by individuals and not by the State.

There is no such thing as a rich society without rich individuals.

This is why I have always championed the notion of rewards: reward for skill, reward for risk-taking, reward for enterprise, reward for sheer industry - and hard work. [Sometimes even reward for just plain luck].

This is why this Government came into office pledged to reduce high rates of personal tax.

And why, in my first Budget, I made a very considerable start on getting down those higher rates of tax.

I am wholly convinced that better incentives are one of the most important ways of channelling human skills and resources into the business of
/wealth creation.

wealth creation.

But unhappily, that has not been the fashionable view in recent years.

On the contrary, business has been prevented by pay policy and penal taxes from giving enterprise and skill an adequate reward. So we have witnessed the spread of "benefits in kind", of "fringe benefits" - in many cases, I believe, beyond the fringe of sanity.

Britain has become in consequence
a perk-ridden society.

Such a system has nothing to recommend it. Perks are economically distorting. They are an inefficient reward for effort. They do not enlarge personal freedom. Indeed, they limit it. They often waste / resources.

resources. They are taxed, if at all, haphazardly. Some perks are taxed in full, others are only taxed in part. Some are taxed on their perks, others escape tax on very similar benefits.

In a word, the whole system as it now exists might almost have been designed to set people enviously against each other and to bring the free enterprise system into contempt.

3

I have no doubt that it will be much better to get back to paying people in cash, so giving them the freedom to spend their own income as they wish.

1. L. abolish all perks.

It is against this background that the Inland Revenue recently issued a consultative paper on the taxation of cars and petrol ad benefits in kind.

I am afraid the purpose of this document has been misunderstood in some quarters.

/ Misgivings

Misgivings have been expressed that the Government is about to nullify much of the relief from tax which the Budget provided.

I can assure you that that's just not so. The consultative document is not a set of firm legislative proposals. Its purpose - like that of all consultative documents - is to set out some major issues as a basis for consultation.

The consultative document dealt with cars first because they are far and away the most generally available form of perk. And they can, of course, vary widely in value. Petrol was also included because of the growing practice of employers providing petrol for their employees' private motoring; besides the loss of tax, this causes concern at a time when we are anxious to conserve our energy supplies.

It has been argued that we should not make any change in the tax treatment of cars and petrol unless we are prepared at the same time to act on every other benefit of every kind. I must caution a
/ little further

little further thought before assuming so coldly logical a view. For there is, throughout industry, a huge variety of benefits that are given - just because they're readily available - to those who work in a given industry or place: discounts for the shop employee - hair-do's for the hairdresser, cheap travel for the rail or air employees - yes even concessionary coal for the miner. Surely we should hesitate before setting up an admittedly comprehensive -but expensive and intrusive - fiscal machine to deal with every benefit that could conceivably be taxed?

These are some of the questions which we are consulting about. We welcome views. We shall consider them very carefully. We have no intention whatsoever of acting precipitately. Our immediate action in dealing with personal tax rates has, I hope, made that absolutely clear.

!?!

/ But this

But this in no way tempers my view that it would be much better to get back to paying people in cash. If anything it strengthens it. For they will be given back the freedom to spend their own income as they wish. Which is one of the cornerstones of the Government's economic policy.

This Government, in the words of your Institute, would "shed no tears for the demise of benefits in kind". And I greatly hope that management will lead the way in that direction. If management wants to see free enterprise flourish - as we do - then it must be ready to

/ turn away

turn away from devices which often serve only to maintain the illusion of conflict between worker and boss. We for our part believe it is right, at the right time and pace, to change the tax system with the same effect. And I hope we will carry managers with us.

CHANCELLOR

Prime Minister M.I. 2

This is a note by John Hoskyns.
The Chancellor will be clearing his
statement on perks to the Institute of
Directors with you.

You asked me for my thoughts on your Institute of Directors speech, with regard to "perks".

The exercise clearly got off on the wrong foot and is a good example^{7/9} of the maxim "the policy is the message". But I think it would be quite wrong for you to do any explicit backtracking. Rather the reverse.

1. IS OUR LONG-TERM OBJECTIVE ON PERKS ABSOLUTELY CLEAR?

- 1.1 I assume that we have no second thoughts, in principle. In other words, our long-term aim will be gradually to eliminate perks, as we eliminate other subsidies and distortions. If we have any doubts about this, then of course you cannot make a statement until we have cleared them up.
- 1.2 This note assumes that we are against perks as economically distorting, morally unhealthy, not good for industrial relations. (Anecdotal evidence includes £1,000 per annum clothing allowances to nationalised industry executives, mortgages at 3% and 4%, senior BL executives being allowed three free cars, two for himself and one for his wife, plus free petrol at certain stations.)

2. GOVERNMENT POLICIES AND TORY VALUES MUST BE CONSISTENT AND COHERENT

- 2.1 The dilemma facing us (which the Long campaign, on which Norman and I are working, must address) is that it is virtually impossible to produce economic turn-around fast enough to win a second term on the strength of that turn-around. A great deal therefore depends on our building up a large reserve of trust - not popularity, but trust.
- 2.2 Government has to provide leadership. The model we should use is the process by which individuals win the respect, trust, confidence of their fellows. It is a slow process (the old matchstick model again) in which hundreds of individual events, over time, gradually build up a picture. The Government must eventually be seen by a growing number of people as:
- firm but fair - firm in decision, humane in execution
 - consistent, no favourites
 - "at least you know where you stand with these people"
 - "they leave you alone to get on with it".

As this picture is built up, it also teaches by example. It is no coincidence that the above picture always emerges of the good manager, good commander, etc.

- 2.3 At the 1983/4 election, we have to win converts, at the margin, from Labour voters who are ready to admit that their first impressions of the Tories were wrong.

- 2.4 Labour propaganda will meanwhile be saying that we are trying to create a society in which the rich can grow richer at the expense of the "working people of this country". That is the stereotype we have to dismantle. We cannot afford to miss any chances to upset that propaganda and make people think again. Of course the conventional realpolitik wisdom may say that this is impossible - but we have nothing to lose by trying.
- 2.5 Consistency and coherence are also extremely important in the shorter term. Everything we do has to support the conviction that "if the Conservatives say they are going to do something, they will do it". This is crucial for getting inflationary expectations down.
- 2.6 It is perfectly possible to display consistency and coherence without being so rigid that we undo all the good the Budget did for middle management. But we mustn't backtrack or appear to be suddenly leading from behind, just because businessmen criticise us. We have to lead from in front, just as union leaders ought to do.

3. SOME THOUGHTS FOR THE SPEECH

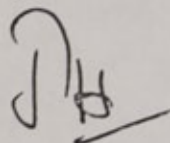
- 3.1 First reassure your audience that we are not just about to change everything. We know that rapid changes hurt innocent people. This is why the cutting down of regional aid etc is phased. The consultative paper made, in its own words, "tentative proposals for changes" and invited views. It made the point, en passant, that, if any changes were to take effect from April 1980, an Order would have to be laid in early November. It is already clear that such a timetable would be quite impracticable.
- 3.2 This is partly due to the fact that perks are a very big and complex part of the hidden economy (list some perks examples and their ramifications) and it would be wrong to single out one aspect, important though it is, before the whole has been considered.
- 3.3 But the audience should be quite clear that the Government is opposed in principle to perks. They are economically distorting. They are seen as condoning tax evasion and the hidden economy. They cost the country much-needed tax revenue. They are socially divisive and give weapons to those who wish to discredit the free enterprise system. It is quite inconsistent with this Government's beliefs and convictions to discriminate in favour of particular groups. We are not in the Clay Cross business.
- 3.4 We are anxious to see management leading the way - as it does in so many foreign companies with UK subsidiaries. We hope management will move towards standard conditions of employment, the ending of umpteen levels of dining-room, separate from the works canteen. If management wants to see free enterprise flourish, it must help to break down the stereotype of capital-labour class conflict.

3.5 Target headline could be "Howe unrepentant on Perks" or "Chancellor tells directors to show leadership". You have nothing to lose (and perhaps much to gain) by a little bit of "confrontation" with the Institute of Directors, in my view.

4. CHANGING ATTITUDES REQUIRES A LOT OF WORK

In our paper, now in preparation (for delivery in early October), on "the Long campaign", we will be suggesting that every piece of communication needs to be thought about carefully in this way, with the emphasis on consistent values and coherent policy. If we can do that, month in, month out, and get, say, 70% of them right, then doubting Labour supporters and Liberal floaters may just begin to feel their minds starting to change by about 1982.

I have copied this note to the Prime Minister and the Paymaster General.



JOHN HOSKYNS
4 September 1979

TL Ewan's
Your request?
MAP

Mr PATTISON

The Duty Clerk asked yesterday for copies of the correspondence between Sir Derek Rayner and the Secretary of State for Industry on the use of University Tailors by the nationalised industries. They are attached.

CP

C PRIESTLEY

4 September

Encs

United Biscuits

01-5 31

SYON LANE
ISLEWORTH
MIDDLESEX

Sir Derek Rayner,
Marks & Spencer Limited,
Michael House,
Baker Street,
London W.1

23rd July 1979

Dear Derek.

Following the Budget, we have cancelled all perks in this company, except for cars which we may or may not be able to deal with at a later date.

In cancelling our contract with University Tailors, they gave us the enclosed information which I thought you might be interested to see.

Yr
Hectia

Sir Hector King

UNITED BISCUITS (UK) LIMITED - OSTERLEY - INTERNAL COMMUNICATION

FOR ATTENTION

H. LAING

FOR INFORMATION

FROM

W.P. BOWMAN

DATE: July 20 75

REF: UPB/AT

TEL EXT:

When advising University Tailors of our decision to terminate our arrangements for suit purchase and suit cleaning, we were told that the nationalised industries have just renewed their contract for the provision of suits, and that top managers receive an allowance of £1,000 p.a.! (Ours was £200).

It may be that some of your important friends in Government might be interested to know that whilst we are cutting back on fringe benefits following their budget, their own organisations do not appear to be following suit.

Mr. Allen

21 July 1971

Dear Hector

Thank you so much for your letter and interesting enclosure of 20 July. You may be sure that the information you have sent me will be put to good use.

I wonder what this will lead to and what other parks are hidden away.

Yours David

Str Hector Laing
United Biscuits Limited
Syon Lane
ISLEWORTH
Middlesex

*Cabinet
reducing*



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-83234213 233 8224

30 July 1979

The Secretary of State for Industry
Ashdowne House
Victoria Street
London SW1

*7
for Keith*

I enclose a copy of a letter which I have received from Hector Laing and which may be of interest to you. I would be grateful to receive any comments you might have.

I am copying this to the Chancellor of the Exchequer and the Secretary of State for Energy.

[Handwritten signature]

Derek Rayner



DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
Switchboard 01-212 7676

RFB, Jm
ash

Secretary of State for Industry

28 August 1979

Sir Derek Rayner
Cabinet Office
70 Whitehall
London
SW1A 2AS

Dear Sir,

Thank you for your letter of 30 July with which you enclosed a letter from Hector Laing about the use of University Tailors by the nationalised industries.

As you may know, Peter Rees said in the House on 9 July that he hoped very much that employers and those responsible would revert to the old tradition of paying people in cash and not in kind. And you are no doubt aware of the consultative document recently circulated by the Treasury, concerned particularly with car and fuel perks. In view of the generous tax reductions in the Budget, it does seem time that industry cut back on executive perks.

We are anxious that the public sector should not get out of line with any changes being made in the private sector and I have been in touch with the Chancellor about the best way of drawing the nationalised industries' attention to Government views on this question.

I am copying this letter to the Chancellor and the Secretary of State for Energy.

Evan,

Keir



CABINET OFFICE

70 Whitehall, London SW1A 2AS Telephone 01-233 3121 FAX 01-233 8224

The Private Secretary to the
Secretary of State for Industry
123 Victoria Street
LONDON SW1

31 August 1979

Dear Private Secretary,

Sir Derek Rayner, who leaves for Toronto on business today, has asked me to convey to your Secretary of State his thanks for his letter of 28 August about payment "in cash and not in kind" to senior staff in the nationalised industries. Sir Derek is pleased that action is being taken and would be grateful if he could be informed in due course of the outcome. I am copying this to the Private Secretaries to the Chancellor of the Exchequer and the Secretary of State for Energy.

Yours sincerely

C. Priestley
C PRIESTLEY



Original Cover. in G/Romms. JH

Exec Pd. cc Tsy

10 DOWNING STREET

From the Private Secretary

3 September 1979

Mr M Goldsmith.

Taxation Policy

You wrote to the Prime Minister on 20 August expressing your concern about the Inland Revenue's consultative paper "The Taxation of Cars and Petrol", and asking her to receive a deputation to discuss the issues raised by it.

The Prime Minister is unable to meet such a deputation herself, but she has asked the Chancellor of the Exchequer to arrange for one of his Ministers to do so. I understand that Mr. Rees, Minister of State at the Treasury (tel. 233 3848), will be happy to see you; and you will of course have an opportunity to express your views direct to Sir Geoffrey when he attends your Annual Dinner on 13 September.

The Prime Minister has, however, asked me to make it quite clear that the paper does not contain any firm proposals by the Government on the taxation of company cars as a benefit in kind. It is designed solely to elicit views from all interested parties on the subject, and the Government will certainly take account of your strongly held views.

Yours sincerely,

Tim Latham.

Walter Goldsmith, Esq.

Institute of Directors

B/F 4-9-79.

to check in Tim
for any further action

TL spoke to
Bathisbill
pa



10 DOWNING STREET

Mr Hall

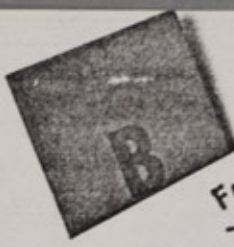
I mentioned to the
Chancellor that John Melton
had spoken to us on the
policy question, and would
like to be helpful. The
attached is, I think,
self-explanatory.

? B/F

Should the Chancellor
be contacted for Melton
to write to him in terms
of his draft? It seems
to me quite helpfully
moderate in tone, and the
Chancellor could perhaps reply after
his speech to the Institute of
Directors. P. 115

3/8/79





FOR MEETING 9AM THURS.

TO POKER TO JOHN METHYEN WHO IS ANXIOUS
POSITION, WITHOUT FIND A WAY OUT OF OUR PRESENT
HE COULD ARRANGE, NEXT WEEK, FOR A LETTER
TO G.H. ^{from} C.B.I. PRESIDENT'S COMMITTEE, THEIR
TOP GROUP; IT WOULD BE A RESPONSE TO THE
CONSULTATIVE DOCUMENT.

A DRAFT LETTER (WHICH HE IS QUITE HAPPY
TO CHANGE) IS ATTACHED.
IN RESPONSE TO THIS (AND NO DOUBT OTHER
REPRESENTATANS) G.H. COULD MAKE A STATEMENT/
REPLY WHICH SUGGESTED A NOTHER BROADER
STUDY OF PERKS AND TAX RATES BEFORE
ANY ACTION, OR EVEN A DECISION TO SHELVE THE
IDEA PRO TEM TILL TAX RATES WERE LOWER

David N.



DRAFT LETTER FROM THE PRESIDENT TO THE CHANCELLOR OF THE
EXCHEQUER

We held today our first meeting of the President's Committee since the Treasury issued the recent Consultative Document on the Taxation of Car Benefits.

We had a very full discussion of the document: and I attach a list of those who were present at the discussion. As a result, I was asked to write to you as soon as possible to let you have the Committee's views.

These can be summarised as follows :

1. The Committee fully supports and endorses the Government's objective of driving for a situation where, as far as possible, all those in employment are paid wholly in money rather than benefits for their work which then leaves employees with the choice as to how they spend or save that money.

2. That means that benefits in kind as part of the terms of employment should be reviewed with the aim at the very least of their drastic reduction. But this should be a comprehensive review of all those benefits, some of which have grown up in the last few years due to the difficulty of adequating rewarding key people, because of high personal

/continued ...

2.

tax rates on the one hand, and a succession of pay and incomes policies on the other. Company cars (which are often part of an employee's tools of trade, for example, for a salesman), are only one of those benefits. There are, as you know, many others - insurance schemes, concessionary travel, subsidised meals, and index linked pensions - to take but a few examples.

3. The Committee fully understands that the document on company cars is a Consultative Document, but a move on cars alone in the manner suggested in that document would be seen by businessmen as much too narrow an approach to what is now a broad and complex subject. The proposals could if implemented have a profound effect on the UK car industry - a point which is not even mentioned in the Consultative Document: and they will in no way spur on to greater efforts those middle managers who will see the taxation benefits which they derived from your first Budget being quickly swallowed up by these proposals.

4. What is done on the tax front must be seen to be right and fair: and moving on the one part of this front alone is not and will not be seen in that light by business generally.

The CBI endorses the Government's objective of reducing

/continued ...

perks. We shall of course respond in detail to the Consultative Document. But I think that it would help greatly if you could at this stage assure us that, notwithstanding the Consultative Document, the Government does not intend to move on the question of cars without having undertaken a very much more comprehensive review of the whole question of benefits in kind.

CONFIDENTIAL



Elson PD

file TW
cc As below +
Dr Wolfson
Henry James

10 DOWNING STREET

From the Private Secretary

30 August 1979

~~RF 11-9-79~~

Dear Martin,

Perks

The Chancellor of the Exchequer called on the Prime Minister at 0900 this morning. They discussed the draft speech which Mr. John Hoskyns had provided for the Chancellor for his speaking engagement on Saturday 1 September; I have already relayed the Prime Minister's main comments on this draft to you by telephone. They discussed certain senior appointments, about which I will be minuting separately. In addition, they discussed the issue of perks.

The Prime Minister said she had been horrified by the consultative paper on the taxation of cars and petrol. This paper had been published without prior consultation with her, and whatever the merits of changing the present system, the phrasing of the paper - in particular the implication that there might be an Order in the autumn - and its general handling had been politically inept. Any early action to increase the taxation of perks, especially for lower and middle management, would be seen - and rightly so - as a negation of the Chancellor's Budget strategy on income tax. The taxation of perks would have to be approached very carefully, and as part and parcel of the strategy of improving the net rewards for people in business. The Prime Minister went on to say that she would not contemplate the laying of an Order before the next Budget, even if this was confined to raising the company car scales in line with inflation. It would be desirable for the Chancellor to make this clear as soon as possible.

The Chancellor pointed out that the document on car and petrol benefits was explicitly intended for consultation; it did not include any firm proposals. There was also a good deal of support for the basic aim of getting rid of the anomalies in the present system. But he accepted that any changes would require very careful handling, and that they would have to be made as part of the overall tax strategy. He would be making a speech to the Institute of Directors on 13 September, and this would provide a good forum for clarifying the Government's position. He would let the Prime Minister see the draft of that part of this speech which would deal with the perks point. The Prime Minister agreed to this, but reiterated that it was essential to make it clear that the Government had no intention of early action which might have the effect of countermanding the tax cuts in the Budget.

CONFIDENTIAL

/Apart from

Apart from the taxation of perks, the Chancellor mentioned that an exercise had been put in hand to examine the perks provided to executives in the nationalised industries. There was the question of whether the Government should take any initiative at this stage to persuade the corporations to cut down on their perks. The Prime Minister and the Chancellor agreed that, as long as the private sector continued to provide perks on a substantial scale, it would be hard to justify taking any general initiative at this stage.

I am sending copies of this letter to Andrew Duguid (Department of Industry), Genie Flanagan (Department of Transport), Tom Harris (Department of Trade), Bill Burroughs (Department of Energy), David Edmonds (Department of the Environment), Jim Buckley (Lord President's Office), John Beverly (Bank of England) and Martin Vile (Cabinet Office).

Tom cur.

Tim Lehman.

M.A. Hall, Esq.,
H.M. Treasury.



Treasury Chambers, Parliament Street, SW1P 3AG

29 August 1979

T Lankester Esq
10 Downing Street
LONDON
SW1

Dear Tim

CF

M.

T. 2/1 x

CAR BENEFITS

I understand you asked this morning for some examples of the relative effects of the reductions in tax rates in this year's Budget and the possible increase in car scales set out in the recently published consultative paper on the Taxation of Cars and Petrol as Benefits in Kind.

The table below sets out three examples, in each case assuming a married man with no children and comparing the present car scales and the direct tax rates and allowances applying in 1978/79 with the realistic car scales in the consultative paper and the direct tax rates and allowances applying in 1979/80.

A.	Income £9,500	Car 1300cc - 1800cc		<u>Tax</u>
			Old scales and rates	£2,666
			New	£2,476
			Advantage	<u>190</u>
B.	Income £12,500	Car over 1800cc costing less than £8,000		
			Old	£4,120
			New	£3,654
			Advantage	<u>£ 466</u>
C.	Income £20,000	Car costing between £8,000 and £12,000		
			Old	£9,091
			New	£7,571
			Advantage	<u>£1,520</u>

These figures are on the cautious side. It is unlikely that many people would be provided with cars costing over £8,000 until they were earning well over £20,000 or 2-3 litre cars costing less than £8,000 until earning well over £12,500, in which case their advantage would of course be greater. And since the new scale rates could not operate until 1980-81 at the earliest, any further reductions in tax rates and increases in allowances for that or subsequent years will also increase the advantage.

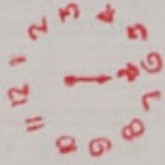
The only group of people we have been able to identify who might be worse off are those with salaries low in relation to the type of car provided (eg directors of close companies who pay themselves mainly in kind). However, the number of people in this position is very small indeed.

Yours sincerely

Richard Broadbent

R J BROADBENT
Private Secretary

29 AUG 1979



CONFIDENTIAL

CONFIDENTIAL

PRIME MINISTER

cc Mr. Wolfson
Mr. Gow

Meeting with the Chancellor

There are three topics which I think you might discuss with the Chancellor tomorrow -

- (i) Perks;
- (ii) Chancellor's speech on Saturday;
- (iii) Appointments (new chief economic adviser, new Chairman of the Revenue, and second Government Director for BP).

Perks

I understand that you intend to raise this in Cabinet; you will want, if possible, to agree a line with the Chancellor in advance.

There are two separate, though related, issues -

- (i) the taxation of perks
- (ii) whether we should do anything to encourage businesses to reduce the perks which they provide, and pay cash instead.

There is a good case in principle for taxing perks on the basis of their real value. The issue is one of presentation and timing. You were understandably annoyed by the Revenue's consultation document (flag A) on car and petrol benefits. If looked at in isolation from taxation generally, the argument in favour of raising the company car scales and taxing the free petrol which executives receive is strong indeed. The present system is inequitable, is costly in terms of revenue foregone, and encourages the uneconomic use of petrol. The industrial argument - that the present system helps to protect our motor industry - is a good deal weaker now that business purchases make up 70% of all car purchases and increasingly involve imported vehicles. But any move must take place - and be seen to take place - as part of our overall tax strategy. Any decision to make changes before the

/next Budget

next Budget, even if only implemented in 1980/81, will be taken as a negation of this year's tax cuts. It is also questionable whether an Order in the autumn would get through the House.

Notwithstanding your conversation with Mr. Lawson last week, the Treasury may still press for an early Order at least to raise the car scales in line with inflation since they were last raised with effect from April 1978. For an executive on £9,000 p.a. with a medium-sized car this would raise his tax bill in 1980/81 by about £35 - a not insignificant amount against the £200-300 income tax benefit which he will have received from this year's Budget. Alternatively, the Treasury may press for an early Order affecting just high income earners.

My own view is that there should be no action before the next Finance Bill. An early statement to this effect would be desirable. Angus Maude has suggested this should be put out tomorrow. However, John Methven (see David Wolfson's note at Flag B) is anxious that we avoid a panic retreat. He suggests that the Chancellor could clarify in response to a CBI letter next week: this would then be seen as a response to consultation with the main employer body. (At Flag F is a letter from the Institute of Directors, highly critical of the consultation document. I will provide you with a draft reply in the light of your discussion with the Chancellor.)

See also
Ian Gow's
note at
Flag G.

As regards the amount of perks provided by businesses, you were sympathetic to the idea of action to reduce them. The CBI were considering taking this up with their members, and Departments have been looking at the perks provided in nationalised industries.

Apart from the tax avoidance aspect, the arguments against perks are that they are divisive and cause immobility - for example, when mortgages are subsidised. On the other hand, it can be argued that if businesses want to pay in kind, and their employees like it, they should be left to do so.

Perks will continue to grow in the private sector until they are properly taxed. Rather than exhort companies to reduce their perks, we need to concentrate on getting the tax arrangements right (subject to the timing/presentational points mentioned above).

/ We could

We could put pressure on the nationalised industries to reduce their perks before we move on taxation. On the whole, I think it would be better not to. Any move in this direction would make us open to charges of discrimination; and the abolition of certain perks (e.g. concessionary fares for BA employees, free coal for miners) would be contentious.

Chancellor's Speech

You have seen John Hoskyns' draft. The main question is whether it is perhaps too "confrontational". Mr. Prior ought to have a chance to comment.

Additional points which the speech might cover -

- (i) the PO computer operators strike which will cost the taxpayer £75m in interest charges on unpaid bills.
- (ii) shipbuilding. We have been getting a bad press on the BS closure programme. The unions are making the running because the public don't understand that
 - (a) the Government has been paying the wages of our shipyard workers;
 - (b) there are no orders;
 - (c) other countries have contracted their yards, while we have not.
- (iii) reaffirm our monetary/fiscal stance - especially relevant as the new pay round gets under way.

Appointments

- (i) Chief Economic Adviser - see Ian Bancroft's advice at Flag C.
- (ii) Second director for BP - see Flag D.
- (iii) Chairman of the Revenue - see Flag E. Ian Bancroft is considering other names and will report back. But you will want to know the Chancellor's views (and Lord Cockfield's who will be standing by).



DEPARTMENT OF INDUSTRY
 ASHDOWN HOUSE
 123 VICTORIA STREET
 LONDON SW1E 6RB

Telephone Direct Line 01-212 3301
 Switchboard 01-212 7676

Secretary of State for Industry

Sir Derek Rayner
 Cabinet Office
 70 Whitehall
 London
 SW1A 2AS

1. ~~2. In the letter~~ 28 August 1979
 2. ~~As requested~~ *see JA*
 3. CF.

See Jack.

*previous ref.
 requested
 PC 3/2*

*R
 2
 575*

Thank you for your letter of 30 July with which you enclosed a letter from Hector Laing about the use of University Tailors by the nationalised industries.

As you may know, Peter Rees said in the House on 9 July that he hoped very much that employers and those responsible would revert to the old tradition of paying people in cash and not in kind. And you are no doubt aware of the consultative document recently circulated by the Treasury, concerned particularly with car and fuel perks. In view of the generous tax reductions in the Budget, it does seem time that industry cut back on executive perks.

We are anxious that the public sector should not get out of line with any changes being made in the private sector and I have been in touch with the Chancellor about the best way of drawing the nationalised industries' attention to Government views on this question.

I am copying this letter to the Chancellor and the Secretary of State for Energy. *and to the Prime Minister*

Evan

Kear

- 3 SEP 1979



R
mk*From the Secretary of State*

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
Whitehall
SW1

28 August 1979

Dear Tim

In his letter to you of 20 July concerning executive perks, Richard Broadbent sought comments from sponsor departments on the position in the nationalised industries for which they are responsible. This letter deals with British Airways (BA), the British Airports Authority (BAA) and the Civil Aviation Authority (CAA) and is based on our own knowledge without reference to the industries themselves.

Both BA and the BAA provide cars for some senior executives. In the case of the BAA this amounts to around 30 cars. We do not have a figure for BA but we believe the practice is on a small scale compared to the total size of the business. There are no allocated cars in the CAA which operates a car pool very similar to that which exists for Government Departments. Since a number of nationalised industries provide cars for senior personnel, the practices of BA and the BAA do not represent any disparity within the public sector.

The other main executive perk of which we know is the entitlement to free first class air travel for life which is enjoyed by members of the main British Airways Board. We are not sure how this ranks for taxation purposes under existing arrangements and would probably have to approach BA to get a clearer idea of this. It would appear to be unique in the public sector and, whilst there would be no justification for excluding it from any proposals to alter the tax provisions relating to perks, my Secretary of State does not wish to take separate action to remove or reduce the existing arrangements at this present moment. We are at a delicate stage in the Government's relationship with the Board and we shall need their full co-operation to achieve a smooth transition to a public limited company and a successful share flotation.



From the Secretary of State

There is another concession in BA which I should mention but which is not an executive perk as such since it applies to staff at all levels. This is the arrangement for concessionary fares whereby all full-time employees of BA with more than one year's service are entitled to an unlimited number of concessionary tickets for themselves and their families (as defined) at rates approximating to 10% of the average lowest fare quoted to the public. There are similar concessions for the staff of all the world's major airlines.

Such travel is on a standby basis meaning that the staff may only occupy seats which would otherwise be empty, they can be off-loaded at intermediate points to make way for fare paying passengers and there is no assurance that return travel will be available on a desired date. Thus it cannot be said that the value of the ticket is equivalent to the price which would be paid by a normal passenger. The reduced rate is calculated to be more than enough to cover the marginal costs involved and provides an additional revenue contribution which amounted to some £5m in 1976/77.

An attempt was made in the 1976 Finance Bill to make this concession taxable but it resulted in a united and vociferous campaign of protest from all levels within BA which argued that concessionary travel for employees is available in all airlines and is a recognised benefit of airline employment. Their case also drew on the factors described in the preceding paragraph concerning the conditions which attach to such travel. In the event the proposal was dropped but there is no doubt that any attempt to revive it would meet with the same reaction and, at a time when we shall need the goodwill of all employees as we move towards a sale of shares in BA, this could well prejudice our wider policy objectives for the airline.

In addition, a new factor has arisen since 1976. BA's overall industrial relations record in recent years has been poor and during 1978 the number of unofficial stoppages reached an intolerable level. The trade unions having failed to produce any constructive remedies of their own, BA's management decided unilaterally in February this year that any employee involved in unofficial industrial action would automatically lose his privilege of concessionary travel for 12 months. After an initial storm of protest from the trade unions there is no doubt that the management's action has been successful. Unofficial stoppages have virtually ceased since their announcement of the policy.

In all the circumstances, my Secretary of State considers it would be most unwise to take any action at this time to reduce this benefit of concessionary air travel.



From the Secretary of State

I am copying this letter to Andrew Duguid (Industry), Genie Flanagan (Transport), Bill Burroughs (Energy), David Edmonds (Environment), Richard Broadbent (Treasury), Jim Buckley (Lord President's Office) and Martin Vile (Cabinet Office).

Yours sincerely

Hugh Bartlett

H W BARTLETT
Private Secretary

AM

Prime Minister

THE TAXATION ON CARS AND PETROL AS BENEFITS IN KIND

1. Herewith:
 - (a) Lombard column from today's Financial Times
 - (b) Terence Lancaster column from today's Daily Mirror.
2. This is rumbling on and will continue to do so until a further Treasury Statement can be issued. Angus Maude telephoned this morning to say that the sooner this can be done, the better. I agree with this advice.
3. As you know, Peter Rees is really responsible for this, but he does not come back to the Treasury until Wednesday morning. You will be seeing Geoffrey Howe on Thursday. Angus thinks that we must get another Treasury Statement out on Thursday at the latest.
4. I have sent copies of the attached articles to Geoffrey Howe, Nigel Lawson and Peter Rees.

lape

AM

I

Ian Gow MP
Parliamentary Private Secretary

24.8.79

cc Angus Maude

Basil and the perks crisis

BY JOHN CHERRINGTON

Dear Uncle Tom,

A belated letter to thank you for the grouse which have been much appreciated. How fortunate you are to have established your residence abroad and can be entertained by your old company as a foreigner and so make the whole grouse exercise, if not viable, at least tax deductible for them. In fact foreigners are now much sought after as guests for all sorts of enterprises because then, as you know, it is quite legitimate for British nationals to be entertained as well.

But I wonder for how much longer. I have been much disturbed by the latest Inland Revenue consultative document about the taxation of perks which at the moment is concerned with cars, but undoubtedly grouse moors and yachts will follow.

Of course as directors of my company Rebecca and I each have a car for which we are charged a small sum as annual value on which we are taxed. I have also a keen young team of departmental managers and salesmen each earning £8,499 a year. Not a very high salary, I grant you, but they have in addition a car with free petrol, BUPA subscriptions for their families, schooling at the fee paying schools for their children and so on.

In addition my lower ranking operatives all get subsidised canteen meals, car allowances to get to work and a number of other little things which according to my agreement with the shop stewards amount to about £10 per week per man.

As soon as the news broke my executives called me into a meeting and their spokesman laid it down that if they had to pay tax at the full rate of their cars they would expect me to increase their salaries to the extent that they could still keep their cars and not be out of pocket.

Supplying the cars at present costs me about £1,500 a year each and if I have to meet their claim I calculate that it will cost my company an additional £500 a year for each executive to meet the car claim alone. In addition the spokesman said that he would be keeping the position of the other benefits in kind under constant review.

He was relatively restrained and polite as he knew very well that I simply had to agree. The business depends entirely on

their efforts and we have just had a few successes in the home market.

Bill Harcourt, the shop steward, was much more brutal. If anything were to happen to his members' benefits they would need financial compensation or else the lads would take action and you know what that means.

If this attack materialises, and Mrs. T. and her friends are in for another four years and eight months, the total extra cost of supplying cash instead of benefits in kind would be £30,000 a year, a figure which on present form I simply cannot find and meet my other commitments. I have sold Rebecca's TR 7 and told her that as she is pregnant at last and expecting twins walking will get her in trim for pram pushing and housework. The office cleaner will also no longer be able to do the housework. I am at my wits' end. What do you suggest?

Your affectionate nephew,
Basil.

Tax holiday

Yacht Delysia, Cannes.

My Dear Basil,—Your letter reached me during an extended board meeting here. The company has chartered the yacht to enable two of our members to recuperate from gunshot wounds sustained from foreign nationals renting the next moor who thought grouse were to be shot by machine guns.

I simply don't know how to advise you except to move your whole enterprise to Ireland where I understand foreign investors can claim a ten year (or is it 20 year?) tax holiday. But in truth your situation is no more than a microcosm of what the whole of British industry could suffer should this scheme go through. According to calculations made by the Revenue the actual loss to tax from benefits in kind is of the order of £360m at least and paying increased salaries to meet this would cost an enormous sum.

The only solution which quickly comes to mind is to rearrange your affairs so that all duties are performed by subcontractors who would have to make all their own tax arrangements. If this change became universal it would create such a multiplicity of separate enterprises that the Revenue would be forced to revolt.

Yours affectionately,

Tom

mpares executive perks world-wide
UK companies top the league

ain still way nd the fringe

By comparison, there are few company cars in the U.S., Canada, Australia and the Scandinavian countries. Under U.S. legislation the fair market value of the benefit is added onto salaries for the purposes of deducting tax.

Australia also uses this system, although in 1974 it introduced a "standby value" similar to the UK scale of benefit for taxing company cars. However, this legislation was repealed before it came into effect.

Ireland also tried using special rules to make it administratively more simple to tax the value of the benefit. For two financial years—1976/77 and 1977/78—those using company cars were taxed on a scale benefit of £300 a year or 15 per cent of the car's purchase price, whichever was the greater.

In Canada the private use of company cars is charged on a sliding scale, rising from a minimum of 12 per cent of its capital cost.

In Australia less expensive cars are assessed at an annual rate of 12 per cent of the capital cost, while the more expensive ones are assessed at a swingeing 24 per cent.

In West Germany and France the private mileage proportion is used. In South Africa the position is in a state of flux. The Inland Revenue goes to employers for an estimate of the annual benefit. This is accepted at the lower levels and becomes a matter of negotiation above these.

However, the Standing Commission on Taxation has just published a paper recommending widespread changes—for the treatment of company cars as well as other fringe benefits.

Among the benefits dealt with are cheap housing loans, and bursaries for students. The Commission's paper comes nine years after the Franszen Commission recommendations on curbing fringe benefits, on which so far the Government has failed to act.

Quite apart from company

cars, the UK also tends to make more use of other types of fringe benefit. Luncheon vouchers are tax-free in Britain, as are "representative occupations," or the benefit of houses tied to a particular job. This is close to the position in the U.S., where meals taken on the business of employers are not taxable, as well as the position of representative occupations.

Germany allows luncheon vouchers and untaxed beer and cigarettes for workers in those specific industries, in much the same way as UK miners are allowed tax-free coal. But a stricter attitude is taken in France, where meals and representative occupations are fully taxed.

More important than these is the area of pensions and health and life insurance. Company contribution to life insurance is popular in several European countries, notably the UK, Belgium, France and Spain.

Generous

The usual practice is for employer's costs to be allowed as part of expenditure and for employee's contributions to be removed from taxable income. Major complications to the tax treatment in Germany means the practice is rare.

European state pension schemes tend to be much more generous than the UK state scheme, and accordingly private pension arrangements are less usual.

However, there is wide use of health insurance. Private insurance is popular in the Netherlands and the UK, while in France companies often arrange to cover the 20 per cent of health costs payable by the individual as opposed to the state. But health schemes are uncommon in Germany, Spain, Switzerland and Italy.

The U.S. lags behind Europe in the company provision of these pension and insurance benefits, although there has been a rapid increase in recent years. Americans tends to place more reliance on incentive schemes than perks



TERENCE LANCASTER

MIRROR POLITICAL EDITOR

Thatcher drives a hard bargain

THESE are hard days for hard-line Tories. Julian Amery's Rhodesian kith and kin are being sold down the Zambesi. Sir Keith Joseph, the private enterprise man, is pouring £20 million of public money into a Hartlepool factory.

Now comes another betrayal which may well have an even bigger effect on many Tory voters.

I refer, of course, to proposals to cut down on perks in general and company cars in particular, a scheme which has caused horror in every golf club in the Home Counties and even in many a Conservative working-man's club in the North.

It is quite true that the Tory election manifesto mentioned nothing about company cars. Indeed, Mrs Thatcher can conceivably call her election manifesto in her defence. For it said: "We want people to have the security and satisfaction of owning property."

Cars are definitely property. Some people do own their own. Denis Thatcher owns a Rolls-Royce. Mrs Thatcher wishes to extend this privilege.

The only trouble is that a lot of car-users—nearly two million of them—would rather not have this privilege. They want things to go on as they are, with their companies owning the cars.

Not all people with company cars voted Tory last time. (I speak here from personal experience.) But it is a good bet that a majority of them did.

That is why it is possible to speak of a Tory betrayal. Their supporters were led to believe that they would get income-tax cuts. They were given no reason to believe that the taxation of fringe benefits such as cars would cancel out other tax cuts.

Walter Goldsmith, director-general of the Institute of Directors, said in a pained way this week: "We do not believe that rewards should be given with one hand and taken away with the other."

The Tories are going to do more than that. They are actually going to bite the hand which marked the ballot paper and gave them victory last May.

IT is not only Mr Goldsmith's company directors who are feeling anxious. At present a man earning less than £8,500-a-year with a small car pays no tax on it. He would lose most from any change.

For he got little or nothing from the Budget tax cuts and will have

‘They bite
the hand
that gave
them
victory’

to pay more for the Budget's VAT increase. To lose the benefits of his company car would really punish him.

Denis Healey tried to deal with the company car when he was Chancellor. But he discovered that what was sauce for the company director was also sauce for the trade unionist.

The railwayman's free travel, the airport worker's cut-price tickets and the miner's coal allowance were also involved.

Mr Healey decided that only a silly billy would interfere in such a sensitive area.

A CHANGE could kill our car industry. Many firms have a buy-British policy. And up to 70 per cent of cars here are bought by companies.

If everybody bought his own car the foreigners must benefit. The British industry has not a good record.

It can be argued that we do not need a domestic car industry. I believe we do. But if the Tories take the opposite view, they should say so.

They should not use changes in the tax system to transform the man in the Marina into the man in the Mazda.

Snap back to the Clear

THE MOD SQUAD



FACT: Mod and



IN GEAR FOR THE MOD REVIVAL: the Purple Hearts group. Jeff Shadbolt the bas

THE OBSERVER

8 St Andrew's Hill, London EC4V 5JA. 01-236 0202

How not to hit perks

ONE MAN'S PERK is another man's resentment.

Over a period of income restraint and high taxation on the higher-paid, the provision by firms of benefits in kind has flowered alarmingly: cars, subsidised canteens, free travel, education and insurance (not to mention medical insurance for trade unionists). If the Government is to reduce the rate of tax, particularly on upper incomes, the case for removing tax exemptions and increasing the tax on perks would seem overwhelming.

Nominal tax rates in this country, both on personal and corporate income, have been among the highest in the world. The effective rates, however, have been half the nominal rates, or less. Taxpayers exert great imagination and skill in finding ways of avoiding tax. Enormous energy and much manpower is expended by the Government in stopping them from doing so. The Inland Revenue is obsessed with closing loopholes—and protecting its own jobs. So, characteristically, its first move on perks is a consultative paper on company cars. Cars are the biggest perk in industry. The Inland Revenue has always hated the idea of people getting away with this benefit, particularly those earning less than £8,500 a year, who are currently exempt.

However, the snag in getting at cars is

that they are mainly a benefit of lower and middle management, which has gained least from the tax cuts in Sir Geoffrey Howe's Budget. The 'Buy British' preference of companies is one of the few things keeping the country's car industry alive. There will be endless arguments over what is fair for individuals to claim and what is not. The result is bound to be a complicated compromise adding still further rules to our already complex, confused tax system, increasing the number of Inland Revenue staff needed to cope with it and burdening the taxpayer with yet more paperwork.

This should not be the aim of the current campaign against perks. What matters is not catching those who are held to get unfair benefits, but producing a system in which those benefits are unnecessary. People should be paid a fair salary. As in America, you should get a car only if it is essential for your job. Tax reliefs, on mortgages, insurance and most other exemptions should be phased out (and Mrs Thatcher has been very quick to back off that one). With a simpler, lower but effective tax rate, companies would have far less reason to offer expensive fringe benefits. Tax accountants would become redundant and so would most of the Inland Revenue staff.

If Mrs Thatcher listens to the Inland Revenue, she will get just the opposite.



Why the elephant is terrified of the mouse

1979 has been a year in which ghosts walked: the people of the world were reminded of the power of spiritual forces to alter the material balance of world affairs.

The Communist world had to endure, in Poland, the incursion of the spiritual leader of a creed utterly hostile to the official ideology of Marxism-Leninism. The Communists possessed material force absurdly ample to keep the Pope out, but they lacked the moral authority to keep him out of a land whose people love what he stands for, and do not love what their rulers stand for. Stalin's famous question received an amplified answer. The Pope still has no divisions, but all the divisions in the Soviet Army could not keep him out of Poland. The spectre haunting Eastern Europe, 131 years after the Communist Mani-

by **CONOR
CRUISE
O'BRIEN**

mystique,' said Charles Péguy, 'and finishes as politics.' So it is with the super-powers. A great power deriving from an eighteenth-century mystique of Freedom confronts a great power deriving from a nineteenth-century mystique of Justice. In their confrontation, there appears much more of politics than of either of the old mystiques.

Yet the mystiques are still around, in their live, virulent, untreated forms: national, social and religious revolutionary forces for

get Martin Set
CF *P.A.*

NOTE OF A MEETING HELD AT 10 DOWNING STREET ON THURSDAY 23 AUGUST 1979

Present

- Prime Minister
- Nigel Lawson
- Ian Gow
- David Wolfson

The Inland Revenue Press Release and Consultative Document on Car Tax as Perks

1. The Prime Minister was concerned that neither she, the Paymaster General nor the Chief Press Secretary at No. 10 had received a copy of these documents in advance for either comment or information. She felt that documents of this nature must in future be seen before a decision on publication was made.

2. The documents, because of paragraph 2 of the Press Release and paragraph 12 of the Consultative Paper, suggested that significant action was likely to be taken in the near future. As a matter of principle the Prime Minister felt that significant taxation changes should be done through the Budget rather than by Order.

3. The Prime Minister was concerned that, for the million or so people with a company car, earning less than £8,500 the effect of the sort of changes envisaged in the paper would be to wipe out the gains they had made from direct taxation reductions in the Budget. In addition, these people would have the burdens of increased indirect taxation.

4. The Prime Minister wished a statement to be made as soon as possible emphasising that no action of any significance would be taken by Order. The possibility of suggesting that the changes in taxation would only apply next year to those on, say, £12½ thousand or above, who have made significant gains from direct tax reductions, might be considered.

5. The Prime Minister wished to discuss this with the Chancellor immediately on his return next week.

D.W.



INLAND REVENUE Press Release

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

[3X]

17 August 1979

THE TAXATION OF CARS AND PETROL AS BENEFITS IN KIND

1. With the approval of Treasury Ministers, the Inland Revenue have prepared a paper on the taxation of cars and petrol as benefits in kind, with a view to consultation with the motor industry and other interested bodies. Copies are available on application in writing or in person to the Public Enquiry Room, New Wing, Somerset House, London WC2R 1LB.
 2. Very briefly, the paper covers the following topics -
 - a. the amount - and the timing of the introduction - of a realistic scale for car benefits;
 - b. other ways in which the system of taxing car benefits could be improved;
 - c. administrative problems which might be involved in the introduction of a specific charge on the provision of petrol and oil; and
 - d. the possibility of abolishing the earnings threshold for the taxation of these benefits and of deducting tax at source in respect of them.
 3. Views on changes in the car scales should be conveyed in writing by 19 October, and on the other matters raised in the paper by 31 December, to the Secretary, Inland Revenue, Room 46, New Wing, Somerset House, London WC2R 1LB.
-

**THE TAXATION OF CARS AND PETROL
AS BENEFITS IN KIND**

A CONSULTATIVE PAPER

**THE BOARD OF INLAND REVENUE
AUGUST 1979**

THE TAXATION OF CARS AND PETROL AS BENEFITS IN KIND

CONSULTATIVE PAPER BY THE INLAND REVENUE

Introduction

1. It is recognised that, in a regime of very high personal tax rates, there will inevitably be a tendency towards remuneration in the form of non-pecuniary benefits rather than in the form of cash. This is one of the reasons why, in its recent Budget, the Government initiated a major programme of direct tax cuts, starting with significantly higher personal allowances and sharply reduced rates of income tax at all levels. Against that background it is now felt that it would be right to consider what further action could be taken to discourage the growth in fringe benefits and, if possible, to bring about a contraction. Such benefits are seldom shared logically or fairly between tax payers, they distort and obscure the working of the employment market and, by their nature, they result to a lesser or greater degree in a loss of revenue.
2. Since car benefits are believed to account for about eighty per cent of the total value of fringe benefits (apart from pension provisions) the Government considers it appropriate to begin with a review of that sector.
3. The purpose of this document is to provide a basis for consultation with the motor industry and other interested bodies on the present situation as it concerns motoring. It looks at various proposals for clarifying the present system for taxing as a benefit in kind the provision for an employee by reason of his employment of (1) a car which is available for his private use and (2) petrol and oil for his private motoring. The document makes tentative proposals for changes and invites views on them.

I. CARS

Scale figures - historical summary

4. The provision by reason of employment of a car which is available for private use is already to some extent taxable as a benefit in kind in the hands of a director or higher paid employee. For this purpose a higher paid employee is, from 6 April 1979, one earning at the rate of £8,500 per annum after inclusion of any benefits and before deduction of any expenses; for the year 1978/79 the figure was £7,500 and for the years 1975/76 to 1977/78 it was £5,000 per annum.
5. The 1976 Finance Act introduced with effect from 1977/78 substantial changes in the method of calculation of the taxable benefit from a car. Previously it had been measured by adding to the annual value of the use of the car (assumed as $12\frac{1}{2}$ per cent of its original cost) the other expenses provided by the employer, and taking the proportion of the total which the private mileage bore to the over-all mileage. This method had proved contentious, time-consuming and difficult to verify. From 1977/78 onwards the taxable benefit for the majority of cars has been measured by reference to a scale based

on the type of car, differentiated in the case of less expensive cars by reference to engine capacity, and in that of more expensive cars by reference to cost. The previous basis has been retained in the case of cars with no business use, or where the business use is insubstantial, except that the annual value of use is taken as 20 per cent of the car's original market value (10 per cent if the car is over 4 years old). For this purpose business use is in practice taken as insubstantial if it does not exceed 10 per cent of total use. And where the car is used for at least 25,000 miles a year on business, the scale charges are halved.

6. The scale originally proposed in the 1976 Finance Bill consisted of 5 categories of cars costing up to £5,000, distinguished by reference to engine capacity, and 9 categories of more expensive cars distinguished by reference to cost. The figures of benefit were calculated by reference to the AA's estimated cost of running a car, taking (on the basis of the car's dual function of business use and availability for private use) one-half of the standing charges (car tax, depreciation, interest on capital and insurance), together with the running costs for 5,000 miles (repairs, servicing and tyres, but excluding petrol and oil); they ranged from £250 for a car with less than 1,000 cc capacity to £3,400 for a car costing over £30,000. In the light of representations from the motor industry these proposals were substantially amended before the Bill became law. The breakpoint between less and more expensive cars was increased to £6,000; the number of categories was reduced to three below that figure and two above; and the scale figures were also reduced so that they ranged from £175 for a car with up to 1,300 cc capacity to £800 for a car costing more than £10,000. These figures bore little or no relation to the costs of motoring on which the original figures had been based.

7. The 1976 Finance Act provided that the scales could be amended by Treasury Order made by statutory instrument subject to negative resolution of the House of Commons. For 1978/79 an Order was made increasing the breakpoint between the less expensive cars, graded by reference to engine size, and the more expensive cars, graded by reference to cost, from £6,000 to £8,000, and that between the two classes of expensive cars from £10,000 to £12,000. At the same time the scale amounts generally were increased by about 10 per cent, which was broadly in line with the general rate of inflation between April 1977, when the original scales had come into operation, and April 1978. The figures, which are shown in column (a) of the Annex, consequently now range from £190 for a car with up to 1,300 cc engine capacity to £880 for one costing over £12,000.

Present position

8. The publication in June 1979 by the AA of figures for the cost of motoring, based on information obtained between January and March 1979, underlines the inadequacy of the scales as a measure of the real benefit derived from the use of a company car. And, whereas a figure of 5,000 miles was adopted as being the average private mileage of business cars in 1976, the most recent National Travel Survey suggests that a figure of 8,000 miles would be more realistic. The table in the Annex to this paper compares -

- a. the current scale figures with
- b. the cost as revealed by the 1979 AA figures, based as in 1976 on one-half of the standing charges (car tax, depreciation, interest on capital and insurance, assuming in the latter case 50 per cent no-claim discount not taken into account

by the AA) and running costs (tyres, servicing and repairs but not petrol and oil) for 8,000 miles.

Considerations affecting the case for a change

9. As a result of the level of the scale benefits, a taxpayer who is provided with a company car which is available for his private use is treated much more favourably for income tax purposes than one who provides for his own private motoring. Those who use company cars to travel to work have a tax advantage over those who have to pay the full cost of such journeys, whether by car or public transport, out of their taxed income or, if that cost is reimbursed by their employers, are taxed in full on the reimbursement. As elsewhere in the tax system, so in the treatment of company cars, the general objective should be to combine equity of treatment with simplicity in administration. Administratively, it is preferable to use a scale which provides a rough yardstick to measure the value of the benefits which are common to all users of provided cars. Fiscal equity points to raising the scale figures to a realistic level; and this is less difficult to achieve at a time when the burden of income tax is being substantially reduced. Until this year the level of income tax, especially at the higher rates, has itself contributed to the prevalence of fringe benefits and has acted as a brake on increasing the scale figures by any significant amount.

10. The current shortfall in oil supply and the recent price increases have underlined the need to contain and indeed reduce our demand for oil and this will become increasingly more important as oil becomes scarcer and more expensive in the longer term. Petrol consumption has increased rapidly in recent years and now accounts for over 20 per cent of our oil product demand. It is important that the tax system should not be used as a means of insulating certain categories of taxpayer from the realities of this situation.

International Comparisons

11. The benefit from the private use of a company car is taxable in the USA, Canada, Australia, South Africa, Ireland, France and Germany. These countries still adopt the method, used in this country up to 1976, of basing liability on private mileage, though Canada imposes a minimum charge of 12 per cent of capital cost even where there is no private use. In all these countries, however, the practice of providing company cars is much less prevalent than in the United Kingdom and the 'private mileage' basis therefore presents a less acute administrative problem than in this country.

Proposals

12. The considerations set out in paragraphs 9 and 10 point towards a regime under which the scale figures might be increased; a realistic scale would point to something broadly equivalent to the value of the benefit as measured, eg by the AA estimates of the cost of running a car (suitably adapted). Any change that was to take effect from April 1980 would require the laying of an Order by early November 1979, so that any changes could be taken into account in the annual recoding for 1980/81.

Other related matters

13. Apart from the scale figures themselves, there is the possibility of changes in the structure of the scale. Thus, the use of cash amounts as breakpoints in the upper part of the scale, while having much to commend it, has the somewhat unsatisfactory feature that unless both breakpoint and scale figures are regularly revalorised on the same basis - and this itself requires regular changes by Order, unless both were to be index-linked - liability on the same car may be increased or reduced from one year to the next in what may appear to the user to be a somewhat arbitrary manner. On the other hand, the use of engine sizes as breakpoints in the upper part of the scale would be unsatisfactory, in view of the widespread variations in price (and therefore in value) between expensive cars of the same engine size. The use of cash amounts as breakpoints throughout the scale would run up against the difficulty that among lower-priced cars there are wide variations of price between different models of the same car, so that price is to this extent an inadequate measure of the benefit; and since the AA figures are based on engine size in this field, it would lead to difficulty in determining the value of the benefit but views on this particular aspect of the scale would be especially welcome.

14. There are also other aspects of the present system which have attracted criticism. Thus, it might be possible to devise other methods of giving relief to the high business user than the present basis under which an employee has to achieve 25,000 miles on business before becoming entitled to a reduction of one-half in the scale figure. At the other extreme, where the car is used little if at all for business, it might be worth considering the possibility of substituting for the arguably anomalous present system, based on a proportion of expenses related to mileage (see paragraph 5 above), a system of charging at $1\frac{1}{2}$ times the scale rate the benefit of a second or subsequent car provided by an employer regardless of the amount of business use, and of any car whose business use is less than say 1,000 miles a year.

15. There is evidence that company cars are being increasingly provided for employees earning less than £8,500, the benefit from which escapes tax altogether. There were 1.6 million new cars registered in 1978 of which 70 per cent (1.1 million) were provided for the business sector. On the assumption that company cars are replaced every two or three years and taking account of cars supplied to the self-employed, there are between $1\frac{1}{2}$ and 2 million company cars in use at present, of which slightly less than $\frac{1}{2}$ million are provided for the higher paid and directors, and taxed accordingly, and at least 1 million escape tax because they are supplied to those earning less than £8,500.

16. There is a strong case for abolishing the £8,500 threshold, so that the benefit from company cars would be taxable, whatever the salary of the employee. But there would be serious administrative difficulties, both for the employer and for the Revenue, in such an extension under the existing system of taxation whereby the car benefit is taken into account on a provisional basis in the employee's PAYE coding and an adjustment made at the end of the year by reference to the return of benefits made by the employer. It is

worth considering whether a change could be made to a system similar to those already in use in some countries, under which the employer adds weekly or monthly equivalents of the car benefit to the cash remuneration each pay day and deducts tax from the total; the scales could be expressed in weekly or monthly terms. This would largely overcome the administrative problems and so enable the benefit from a company car to be taxed on all employees regardless of the level of their earnings.

17. Deduction at source, like the other changes discussed in paragraphs 13 to 16 above could not be implemented before 1981/82.

II. PETROL

Background and present position

18. The calculation of the scales for taxation of the benefit of a company car does not include any element for petrol and oil. This is because at the time of their introduction there was no evidence of any general practice on the part of the employers to pay for petrol for their employees' private motoring, and it would have seemed unfair to reflect such payment in the scales. Whatever the true position in law, all the evidence suggests that the practice is now rapidly on the increase, and the position is further complicated by the fact that the method used by the employer to pay for the petrol may determine whether or not the employee is liable to be charged to tax on it.

Considerations affecting the case for a change

19. The inequity, due to the level of the scale benefits, between the taxpayer who is provided with a company car available for his private use and one who provides for his own private motoring is increased by the ability of the former to have petrol and oil provided for private motoring without incurring additional liability to tax. The provision of petrol and oil for an employee's private motoring in a company car is unquestionably a benefit, and fiscal equity points to charging it to tax, by whatever means it is provided.

20. The considerations outlined in paragraph 10 apply with even greater force to the provision of petrol for private motoring. In terms of energy conservation, such provision without a tax charge runs counter to the principle that energy prices should give consumers accurate signals about the cost of energy supply and is a positive disincentive to containing demand for oil.

21. There could be administrative problems associated with the introduction of a charge on petrol and oil; since liability would be based on the cost of petrol used other than for business purposes, and the question would arise as to whether adequate records would be available. Such problems did, of course, arise prior to 1976, when the liability on the whole of car benefits was calculated on the basis of actual expenses incurred, and they have also arisen in connection with the collection of VAT on petrol; and on the basis of experience in both areas there is good reason to believe that they could be considerably reduced here by administrative arrangements.

22. Some employers will already be keeping records for their own purposes of the cost of private petrol borne by them and more may in future do so, as a control on the cost to them of the provision of the benefit or because they only bear the cost up to a certain limit; such employers should have no difficulty in returning the amounts of the benefit. In other cases, different arrangements might have to be devised; and it will be important to ensure that any such system is as simple and intelligible as possible for employers, employees and the Inland Revenue.

23. These problems would diminish considerably if the provision of private petrol was brought into a system of deduction at source at the same time as car benefits along the lines suggested in paragraph 16.

24. The phrase 'petrol and oil' has been used in this paper as a description of the benefit not previously provided by employers to any great extent but now being supplied much more widely. It is not intended to charge separately to tax the supply of fresh lubricating oil which would generally form part of a normal periodical service, and for which the employer would normally pay. It is however, intended to include diesel as well as petrol where this is used as the fuel for the vehicle, and any other similar fuels.

SUMMARY

25. Views are invited on -

a. the amount - and the timing of the introduction - of a realistic scale for car benefits (paras 8-12);

b. other ways in which the system of taxing car benefits could be improved (paras 13-14);

c. administrative problems which might be involved in the introduction of a specific charge on the provision of petrol and oil (paras 20-23); and

d. the abolition of the £8,500 threshold for taxing car and petrol benefits, and the introduction of a system of deducting tax at source from these benefits (para 16).

26. Representations on changes in the car scales are invited by 19 October (for the reasons indicated in paragraph 12 above) and on the other matters in this paper by 31 December. They should be addressed to the Secretary, Inland Revenue, Room 46, New Wing, Somerset House. Meetings can be arranged with those who so wish.

ANNEX
CAR SCALES

TABLE OF COMPARISON

Category of car	(a) Scale benefit	(b) AA figures for 1979 with running costs for 8,000 miles
Original market value up to £8,000		
1300 cc or less	190	594
1301-1800 cc	250	695
Over 1800 cc	380	1,044
Original market value over £8,000		
Costing between £8,000 and £12,000	550	1,732
Costing over £12,000	880	2,417



DEPARTMENT OF ENERGY
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THE MINISTER OF STATE

Tim Lankester Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON SW1

8 August 1979

BLF
23/9

Dear Mr Lankester,

You wrote on 16 July to Richard Broadbent about executive perks. I have also seen his reply of 20 July, outlining the exercise which the Revenue have in hand on tax measures generally, and suggesting that sponsor Departments should comment on the particular position in their industries.

May I first say that my Minister endorses the suggestion in Richard Broadbent's reply that the first priority should be the tax aspect. By getting this right, we will obviously go far towards correcting any anomalies and the application of tax changes will of course be a fair one across the board, affecting public and private sector industries equally.

Turning to the position in the nationalised energy industries, I attach an annex which outlines the main fringe benefits available to employees, which may be of some use in taking stock of any significant disparities between the public and private sectors, or between different parts of the public sector. However I should make it clear that this does not represent an exhaustive nor fully up-to-date survey - the annex contains only the information already to hand within this Department. My Minister believes that if a more detailed exercise were to be undertaken for the nationalised industries, this would be best done by a common approach to all Chairmen. I should emphasise, however, that all our industries (apart from BNO) are members of the CBI and will be covered by whatever initiatives the Confederation may decide to adopt.

I am sending copies of this letter to Richard Broadbent (Minister of State (c), Treasury), Andrew Duguid (Department of Industry), Genie Flanagan (Department of Transport), Tom Harris (Department of Trade), Tim Buckley (Civil Service Department), David Edmonds (Department of the Environment), Martin Vile (Cabinet Office) and to the Private Secretary to the Governor of the Bank of England.

Yours sincerely,

Malcolm

GORDON EWART
PRIVATE SECRETARY

FORN TO...
...
...
...
...

- 9 AUG 1979



ANNEX

FRINGE BENEFITS IN THE NATIONALISED ENERGY INDUSTRIES

Coal

Managerial staff compulsorily transferred to London are given assistance with house purchase in the form of "low interest" loans. Bridging loans are not made to staff but assistance with interest charges may be available to a transferee who temporarily has two homes.

Cars are provided for a strictly limited number of senior executives.

Gas

BGC make free Bridging Loans to staff who are required to move. These are normally short term loans (3 months) but this period can be extended, when full commercial rates are charged. There is no formal scheme for the granting of low-interest mortgages but in one or two cases of particular difficulty longer term loans have been given on Board authority.

A relatively few BGC employees who do a large amount of travelling on official duty have a car allocated to them. Where a BGC employee uses his or her own car for official business they may claim appropriate reimbursement. There is an official "pool" of cars for occasional business use.

Electricity

Staff compulsorily transferred may claim a number of allowances related to the cost of moving. These include the legal and mortgage costs of house sale and purchase, an agents fee in connection with the sale of the present home, removal costs, a settling-in grant rising from £675 according to salary, and a payment equal to the difference in market value of comparable houses for those transferred to higher price areas.

Chauffeur-driven cars are available to those at the highest level (eg Chairman of the Council). Employees who regularly use their own cars for official purposes may claim a number of allowances including the vehicle licence duty, AA or RAC subscription, the insurance premium (subject to a maximum), an annual allowance varying between £200 and £450 depending on size of vehicle, and a milage allowance. As an alternative regular users can obtain a car which is on contract hire to the Board, for which they are then charged an amount which varies according to the extent to which they use the vehicle for their own purposes and the hire cost to the Board of that vehicle.

AEA/BNFL/TRC (Atomic Industry)

AEA employees compulsorily transferred into London enjoy the same transfer conditions as do civil servants. We have no further information.

BNOC

Employees being relocated, or new recruits with existing housing loan arrangements, have access either to building society mortgage finance under a special arrangement but at the standard rate, or to loans from BNOC on terms comparable to those offered by other oil companies.

Chauffeur-driven cars are available to top management and company cars to certain senior managers.

Note

The information on accommodation benefits was mainly compiled in late 1976. Some changes may have occurred since then of which we are not aware.

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✓ MS for
TL on 23/9



Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

1 August 1979

BF 23.9.79

Tim Lankester Esq
Private Secretary
10 Downing Street
LONDON SW1

Dear Tim,

EXECUTIVE PERKS

We have seen your letter of 16 July to Richard Broadbent and his reply of 20 July. I do not think that we can give you much help.

The main areas over which the CSD exercises specific and detailed control of remuneration, expenses and allowances - the civil service, the armed forces and the judiciary - do not of course enjoy the "executive perks" common in industry at large, and such perks as they might have are taken into account in the pay rates.

The CSD does not exercise detailed control in the other major public services, such as local authorities, police, fire services, teachers or the national health service. Although we would be surprised if executive perks were present in any substantial degree only the relevant departments are in a position to give an authoritative view.

As for the nationalised industries, CSD has no responsibility at all for the remuneration, etc, of the staff. The Minister for the Civil Service is required to approve the remuneration proposed by sponsor departments for the chairmen and board members, but even here the rates of pay are determined essentially by the Review Body on Top Salaries who take account of any perks in making their assessments. There is therefore no scope through the pay control machinery for the CSD to influence the level of perks in these industries.

We doubt therefore whether we can contribute anything to the stocktaking proposed by the Treasury. As far as the CSD's areas of control are concerned the issue is not one of cost, as perks are already taken into account in pay. Rather it becomes one of presentation in relation to the Government's approach to the existence of perks generally. As such, if it is intended to develop a "cash not kind" approach, we would have thought it desirable for the Treasury in the context of the tax changes to exhort departments, including those responsible for the nationalised industries, to do what they can to ensure that rewards are given as far as possible in cash rather than in kind.

I am sending copies of this letter to Richard Broadbent (Minister of State (C), Treasury) Andrew Duguid (Department of Industry), Genie Flanagan (Department of Transport), Tom Harris (Department of Trade), Bill Burroughs (Department of Energy), David Edmonds (Department of the Environment) the Private Secretary to the Governor of the Bank of England and Martin Vile (Cabinet Office).

*Yours sincerely,
Jim Buckley.*

J BUCKLEY
Private Secretary



- 2 AUG 1979

COOPERATION CENTER

Ecan P.M.2 MARSHAM STREET
LONDON SW1P 3EB

My ref: H/PSO/13859/79

Your ref:

26 July 1979

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*27/7**Don Tin*

You sent me a copy of your letter to Richard Broadbent about executive perks in nationalised industries.

My Secretary of State is not aware of any major problem in this regard in the industries for which he is responsible - the water authorities and the British Waterways Board; but he entirely agrees that we must make sure the public sector follows the guidelines we are suggesting for the private sector, and will accordingly be taking up the matter with the Chairmen.

I am copying this letter to recipients of yours.

You are
*D.A.E.*D A EDMONDS
Private Secretary

27 JUL 1978



The purpose of this report is to provide information on the status of the project. The information is intended for the use of the project manager and the project sponsor. The information is intended to provide a clear and concise summary of the project's progress and to identify any issues that may be encountered. The information is intended to provide a clear and concise summary of the project's progress and to identify any issues that may be encountered.

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Page 1 of 1

C. M. Wilson

Prime Minister Econ 2
PS

To note - a progress
report on perks.



MB

R 20/7

Treasury Chambers, Parliament Street, SW1P 3AG

Tim Lankester Esq
10 Downing Street
LONDON
SW1

BF 23/9
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20 July, 1979 . .

Dear Tim

Flag A

You wrote to me on 16 July about executive perks.

As far as tax measures are concerned, my Minister has had a meeting with Revenue Officials and has commissioned a further paper which will be submitted to him shortly. This will cover the possibility of substantial increases in the amounts of taxable benefit from company cars and a more effective charge on the provision of petrol for non-business use, as well as consideration of other areas where the tax charge could be made more effective. The Revenue are also contemplating, in the longer term, requiring employers to deduct tax from benefits and, possibly, recommending the abolition of the threshold of £8,500 earnings below which many benefits are not at present taxable; the additional burden which this might place on employers could act as a further disincentive to making payments in a non-cash form. Any tax changes will, of course, apply equally to the nationalised industries as to the private sector. The Revenue will be meeting a delegation from the CBI shortly to discuss some of these matters.

The provision of perks in the nationalised industries, most of which are incidentally members of the CBI, is not a matter for the Treasury but for the Civil Service Department and the sponsor departments. I hope that those departments and others dealing with parts of the public sector where perks are provided will comment on the present position and on any gross disparities between different parts of the public sector. But I think we should take stock of what is known before taking up this aspect, as opposed to the tax aspect which affects the private and public sector equally, with the nationalised industries or other public bodies.

I am copying this letter to the recipients of yours and to the Private Secretaries to the Lord President and the Governor of the Bank of England.

Yours sincerely
Richard Broadbent

R J BROADBENT
Private Secretary

224



119 JUL 1979

CONFIDENTIAL

file from B. M



cc. David Wolfson
Cabinet Office

BF 25/7/79

10 DOWNING STREET

From the Private Secretary

16 July 1979

The Prime Minister has expressed the view that, in view of the generous tax reductions in the Budget, it is time that industry cut back on executive perks. Your Minister said in the House on 9 July that he "hoped very much that employers and those responsible will revert to the old tradition of paying people in cash and not in kind". He went on to say that "any responsible Government - certainly the present administration - would want to look at the whole field of perquisites and see what could be done".

I understand that the CBI are considering taking this issue up with their members. Is anything being done to tighten up on perks given to executives in the nationalised industries? It would look odd - to say the least - for the Government to mount an initiative in relation to the private sector if nothing was being done to limit perks in the public sector.

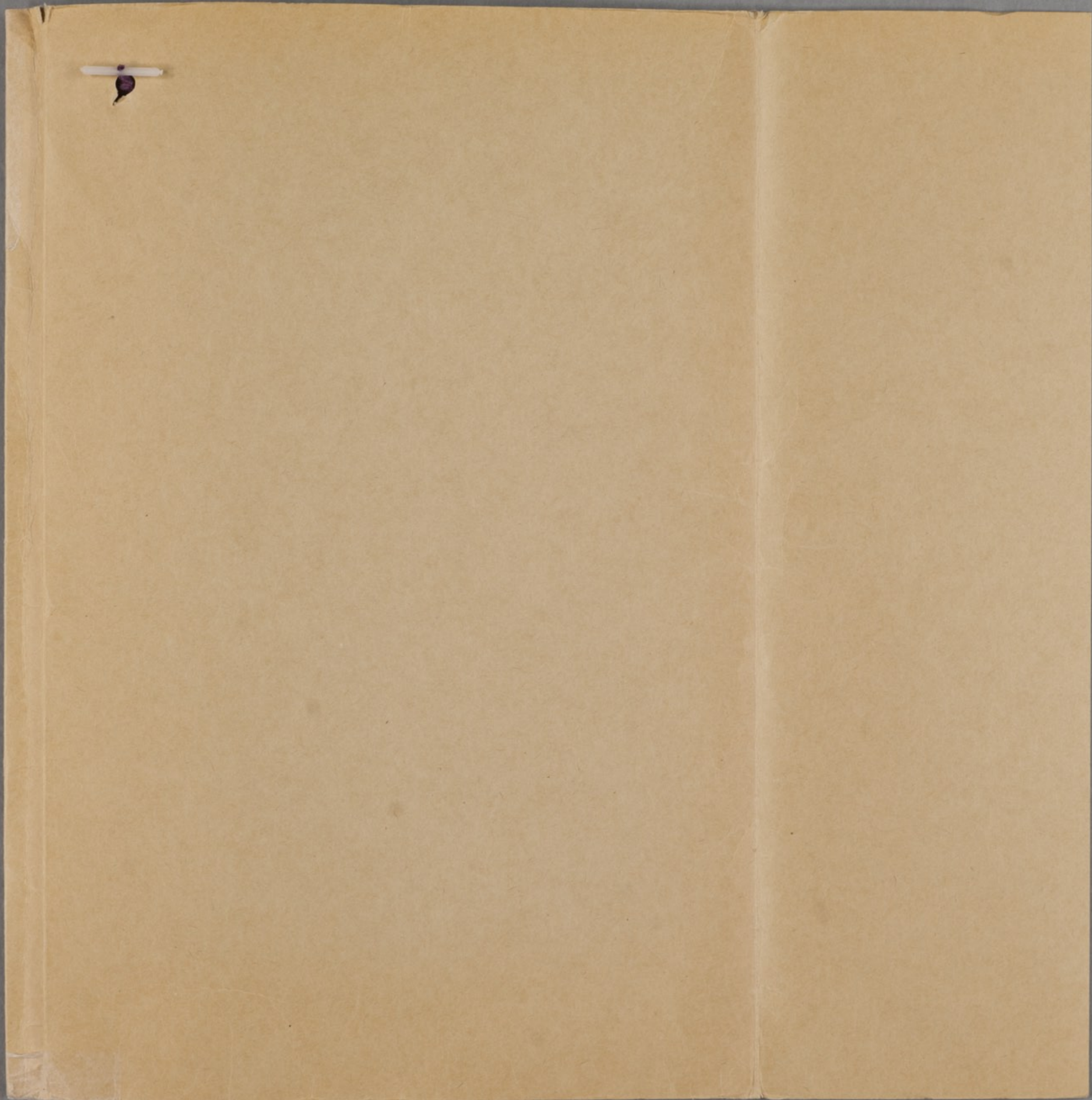
I am sending copies of this letter to Andrew Duguid (Department of Industry), Genie Flanagan (Department of Transport), Tom Harris (Department of Trade), Bill Burroughs (Department of Energy), David Edmonds (Department of the Environment) and Martin Vile (Cabinet Office).

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ARR

Richard Broadbent, Esq.,
H.M. Treasury.

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END

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February 2010