

PREM 19/1716

272

Confidential Filing

Simplifying the Tax Legislation.

ECONOMIC POLICY

Correspondence with Mr. Peter Rowland of Rowland Debono Ltd.

May 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
25.10.83							
7.11.83							
15.12.83							
11/12/83							
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20.1.84							
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2.7.84							
10.7.84							
11.8.84							



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

11 August, 1986.

I know the Prime Minister will be most grateful to you for your letter of 7 August, and for your concern and good wishes. I shall ensure that she sees your letter when she returns from her holiday.

(M.E. Addison)

Peter M.B. Rowland, Esq.

File

PRIME MINISTER

I attach a letter from Peter Rowland which I have thanked him for.

He asks if you would like to have a further word about tax reform. Would you like me to respond saying your diary in the autumn is chock-a-block, and it will just not be possible to arrange a meeting for now?

MEA

8 August, 1986.

ROWLAND, DEBONO LIMITED

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John Percival (Res. France)

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The Rt Hon. Margaret Thatcher, M.P.,
10 Downing Street,
London SW1

7th August 1986

Dear *Margaret,*

I do hope your "French cabby's disease" has been eradicated without any lasting effects. In my case, it was the finger next to the little one which was threatened but fortunately it yielded to some electronic treatment and massage and I was able to avoid, what sounded a dangerous operation. All I need do now is to bend my fingers back from time to time to keep them flexible. I understand that it is in fact named after a Parisian cab-driver who was what may be termed an early "contracting party", and I re-christened it to make it easier to remember.

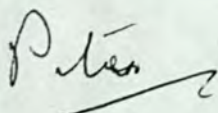
A side-light on S. Africa. The other day Clare's father mentioned a local problem of Marley's of enlarging their car parks sufficiently to accommodate all the vehicles of their black workers. I wonder how many of the African and Asian critics of apartheid share the same problem! N.B. His comments were made seriously but I would have to get chapter and verse if you wished to cite it.

The tax reforms you have introduced are certainly admirable but my proposed re-drafting was a wholly different point and one which could also be very important. The reactions of everyone in the very restricted group who considered it - including the head of the I.R.S. and John Isaac here - were excellent, with the possible exception of Arthur Cockfield. Ever since he went to Brussels I have been wondering whether I should not resurrect it; I still feel a way could be found round the Parliamentary time point.

Please let me know if you would like a further word on the subject. It would in any case be very nice to have a general chat if you can spare the time.

With best regards to you both.

Yours sincerely *mw*



Peter M B Rowland

P.S. I have just moved my office here from No. 11 Upper Brook Street.



10 DOWNING STREET

Prime Minister

Mr Peter Rowland, who
will be at the European-Atlantic
dinner, has written to say he
has heard nothing from
Lord Cochrane on tax
simplification. The attached
note from Lord Cochrane explains
why he has not been able to
make use of Mr Rowland.
Corporation tax has already
been tackled and work is
going on to reform capital
gains tax and Schedule D.

AT

10/7



Chancellor of the Duchy of Lancaster

Mr Andrew Turnbull
10 Downing Street

I enclose a note by the Chancellor of the Duchy, for the Prime Minister's meeting tomorrow with Mr Peter Rowland, setting out the present position on the revision of taxation legislation.

A handwritten signature in blue ink, appearing to be 'SB', written in a stylized, cursive script.

SEBASTIAN BIRCH
10 July 1984



Chancellor of the Duchy of Lancaster

TAXATION LEGISLATION

1. I have had a number of discussions on this with the Lord Chancellor, First Parliamentary Counsel and the Inland Revenue. The position we have reached is set down below.
2. The extent of the work now in hand on major structural reform is such that there are few areas left where simple "tidying up" of the kind Mr Peter Rowland had suggested would be practicable. Nor would it be sensible to divert Parliamentary draftsmen or the Revenue experts from the major restructuring exercise. But the views expressed by Mr Rowland have been brought very much to the attention both of Parliamentary Counsel and the Inland Revenue and will I hope bear fruit in the drafting for the major restructuring work.
3. The other limb of the exercise, namely Consolidation, is well in hand. Unfortunately it will not be until the Autumn of 1987 that the Consolidation Bill will be ready for introduction and it would not be enacted until 1988. I have discussed the question of accelerating this timetable with the Lord Chancellor. His view which is shared by Sir George Engle is that to shorten the timetable by two years - which is what I would have liked - is impossible. But the position will be reviewed in the middle of next year, by which time most of the preliminary drafting will have been done, to see whether the programme could then be brought forward by a year. One of the major difficulties is that Consolidation is in the hands of a single draftsman. Consistency and coherence in drafting does require the work to be concentrated in this way. To bring in additional people at this stage, even if they were available, would if anything set the work back.

4. Once the preliminary drafts are available next year we will then consider whether some simplification is possible. If it is, the pre-consolidation amendments would be included in the Finance Bill, so that the Consolidation Bill itself would not then change the law and would still qualify for the accelerated legislation procedure.

5. We have looked at the question whether "simplification" should not precede consolidation. Before one can "simplify" one must - informally at any rate - consolidate the existing legislation to be certain what the existing law is. In effect therefore one would end up proceeding in much the same way as I have set out above - that is a draft consolidation, followed by pre-consolidation amendments in the Finance Bill, leading then to consolidation itself.

A.C.

A C

10 July 1984

00. *cf have pps* *CFE*

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PMBR/pw

The Rt. Hon. Margaret Thatcher, M.P.
10 Downing Street,
London S.W.1.

9 July, 1984

Dear Margaret,

I am looking forward to seeing you at the Guildhall, and possibly having a brief word. The European-Atlantic Group in fact dates from just before you were in Chambers, and I am one of 4 survivors of the original 12 who founded it. No doubt I mentioned it at the time.

I thought the restoration of sensible capital allowances and the production of a preordained plan for reducing C.T. rates were master strokes, and some of the drafting seemed to be better though very patchy. It was disappointing that my efforts were in vain because I had hoped to follow them up with other reforms which would I think have been beneficial.

I never heard any more from Arthur C. which is a pity as I occasionally have some useful ideas, but there it is; he may not have much of a taste for private enterprise in his own field!

Yours

PMBR

Peter M.B. Rowland

GR pl check for letter 18/6.

CEW

FROM MR. B. W. SUTHERLAND, C.B.E., F.C.A.

THE MANOR HOUSE
SHIPSTON-ON-STOUR
WARWICKSHIRE
SHIPSTON-ON-STOUR 61607

PPS

2nd July, 1984

24

① cc HMT
② ✓

oms
5/7

Dear Prime Minister,

I thank you for your kind letter of 18th June and I apologise for not having been able to reply to it earlier.

I have to say that, while my proposals did not find favour in the particular forum in which they were discussed, it was generally agreed that the combined effect of the P.A.Y.E. and National Insurance systems does constitute a real disincentive to effort. I am therefore asking my colleagues in the Institute of Directors to look at this problem. I hope to bring in to this study people engaged in day to day management, who have studied shop floor motivation, as well as our economics and taxation specialists.

I firmly believe that to keep up the impetus of our recovery from the recession we must seek to remove every obstacle to the changes in attitudes to effort which you have done so much to achieve. If change is necessary, the fact that it is difficult to achieve does not make it unnecessary. I believe that we must change the present system - I hope that I shall yet produce a less difficult way to do so.

Yours sincerely

Bruce Sutherland

The Rt. Hon. Mrs. Margaret Thatcher, M.P.,
10, Downing Street,
LONDON, S. W. 1.

They could be implemented now and would not have to await the computerisation of the Inland Revenue. They could I believe be implemented by 6th April, 1985, which is a Saturday, in other words not in the middle of a normal pay week. They should enable further reductions in staff numbers, particularly in D.H.S.S. They would certainly reduce the costs of payroll preparation for all employers. They do, however, need a willingness to accept radical changes, since they represent a major reform of the system.

I enclose a copy of my paper which I send to you in the hope that I can enlist your support for a positive examination of the proposals. They would affect not only the Inland Revenue and D.H.S.S. but also, I think, the Department of Employment. I have to say here that I personally experienced what I can only describe as a destructively negative attitude on the part of certain officials in D.H.S.S. to ideas which I submitted to the Tax Credit Study Group in 1972/73 - an Under-Secretary actually quoted the famous: "the best is the enemy of the good" at me at one stage. You know that I have very considerable experience of the tax system and of its administration and I believe that, given positive attitudes of mind in the examination of the scheme, it will be found to be practicable and that it would produce the desired effects. If there are sound reasons for rejecting it, so be it. I would be very sad, however, if negative attitudes of mind prevented proper consideration being given to it.

I am sending copies of the paper to Nigel Lawson and also to John Isaac, the Deputy Chairman of the Board of Inland Revenue responsible for personal taxation who had a representative at Douglas French's conference.

Yours sincerely

Bruce Sutcliffe

The Rt. Hon. Margaret Thatcher, P.C., M.P.,
10, Downing Street,
LONDON, S. W. 1.

H. H. Sutherland HMT. 19/12/83
L15

FROM MR. B. W. SUTHERLAND, C.B.E., F.C.A.

21
THE MANOR HOUSE
SHIPSTON-ON-STOUR
WARWICKSHIRE
SHIPSTON-ON-STOUR 61607

25
HMT.

14th December, 1983

Dear Prime Minister,

TAXATION OF EMPLOYMENT INCOMES

You and your Ministers have done much to achieve the change in the attitudes of mind to work, which have been one of the reasons for our poor economic performance since the war. However, the manner in which we tax incomes from employment works actively against the attainment of your objectives in this area.

The P.A.Y.E. system was introduced in 1944 when a minority only of the working population paid income tax. National insurance has evolved over the years independently of the P.A.Y.E. system but, since 1975, it has become in effect an additional income tax. Because the proportion of the national income which is taken in taxation has grown to unprecedented levels, a basic defect of the P.A.Y.E. system, which was not material in its effects in 1944, has now become a significant disincentive to extra effort. Under the system the marginal combined rate of income tax and national insurance deducted from each additional £ of pay is significantly higher than the perceived average rate of deductions from pay at the previous level. There are in addition other serious anomalies due to the absence of harmonisation of the two systems of taxation.

After long consideration, I have evolved a solution to these problems which is I believe practical and capable of early introduction. It would also help to reduce the problems of the "poverty trap" and of tax evasion by casual employments. I prepared a paper outlining my proposals for a conference of tax experts organised by Douglas French who used to work for Geoffrey Howe at the Treasury. That conference agreed that the proposals merited serious consideration.



10 DOWNING STREET

THE PRIME MINISTER

18 June 1984

Dear Bruce

You wrote to me on 14 December putting forward your ideas for recasting the taxation of employment incomes. John Moore has given me a report of the discussion in the Tax Consultative Committee. Although these particular proposals did not find support in the committee, they did provoke an interesting discussion of the issues and problems we face.

I am grateful to you for your contribution to this debate and hope that you will continue to develop radical ideas of this kind.

Warm regards,

Yours sincerely

Margaret Thatcher

B.W. Sutherland, Esq., C.B.E.

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de



10 DOWNING STREET

PRIME MINISTER

Mr. Bruce Sutherland wrote to you last December putting forward a radical proposal for recasting the taxation of employment income. In effect he was suggesting that wages, like dividends, be paid on a net basis with an accompanying tax credit. At the same time income tax and national insurance contributions could be intergrated. While this would have ironed out a number of the anomalies in our tax and produced a more smooth progression of tax rates it would have involved all pay rates being expressed as 61% of existing rates $\sqrt{0.61 = 1 - (0.30 \text{ income tax} + 0.09 \text{ NIC})}$

This proposal was examined by John Moore in the Tax Consultative Committee. Although an interesting discussion was generated, the proposals were considered by other members to be unworkable. Nevertheless, you will want to write to Mr. Sutherland to thank him for putting forward his ideas and provoking discussion of the problems involved. A draft is attached.

AT

14 June 1984



CC 40

FROM: FINANCIAL SECRETARY

DATE: 13 June 1983

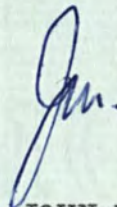
PRIME MINISTER

PAPER FROM MR BRUCE SUTHERLAND ON PROPOSALS FOR A NEW SYSTEM OF TAXING EMPLOYMENT INCOMES

1. You may recall that towards the end of last year Bruce Sutherland sent you a copy of a paper outlining his proposals for a radical change in the system of taxing employment incomes aimed principally at improving incentives. (A copy of the paper is attached.) I arranged for the proposals to be considered by the Tax Consultative Committee and said that I would let you have a report once Mr Sutherland's ideas had been examined by the Committee. The Tax Consultative Committee (TCC) is a group of outside tax experts and officials which I chair, and I attach brief notes on those attending the 14 May meeting.

2. The TCC discussed Mr Sutherland's ideas fully at a meeting on 14 May. The Committee's general conclusion, which I share, was that although Mr Sutherland's proposals addressed a number of important questions about the present tax and social security systems - the effect of taxation on incentives, whether income tax and national insurance contributions should be brought closer together, the problem of poverty and the poverty trap, the scope for reducing the costs of administration and the burden of compliance for employers - the solution which he put forward was in itself not acceptable. In particular, the Committee doubted whether the scheme would bring about the change in perceptions and improvements in employees' motivation and incentives which Mr Sutherland saw as its prime objective. They were concerned that the scheme required a complete recasting of employees' pay rates, which would be very difficult for the general public to understand and accept. And they considered that any benefits to employers from the scheme would not be sufficient to outweigh the fact that some employers would inevitably find themselves worse off following a change to the new system. I attach a copy of the minutes of the meeting which summarises in more detail the points made during the Committee's discussions.

3. At the conclusion of the meeting Mr Sutherland recognised that the Committee had not found his particular proposals acceptable but considered it had nevertheless been worthwhile to have examined the issues which he had raised. I think that is a fair assessment. Mr Sutherland's scheme attempted to find solutions to a number of questions in the field of tax and social security to which we are currently directing attention. But the general conclusion was that though his proposals involved bold and comprehensive changes in the organisation and presentation of pay, tax and social security, they did not in practice offer a solution to the problems of real substance: incentives, poverty trap, Exchequer and staff costs.



JOHN MOORE

TAX CONSULTATIVE COMMITTEE: NOTES ON MEMBERS ATTENDING 14 MAY MEETING

Outside Members

Mr M J Kerr MA ACA

Accountant. Senior member of staff of Messrs Ernst & Whinney. Joined TCC 1980.

Mr G W Penrose QC

Advocate (and Chartered Accountant) a co-opted member of the Revenue Law Committee of Scottish Law Society. Joined TCC 1982

Mr D C Potter QC

Barrister, and Chairman of the Revenue Bar Association since 1978. Joined the TCC in 1982.

Mr E E Ray FCA

Accountant. Partner in Messrs Spicer & Pegler. Last year's President of the Institute of Chartered Accountants in England and Wales. Joined TCC 1982.

Mr I P A Stitt

Chartered Accountant, a partner with Arthur Andersen in Leeds. He has been President of the Institute of Taxation since 1982. He has been a member of the Tax Consultative Committee since 1982.

Mr B W Sutherland CBE FCA

Tax Consultant and Director. Chairman of Tax Committee of ABCC. Member of IOD and CBI Tax Committees. Joined TCC 1982.

Mr F Cassell

Deputy Secretary, HM Treasury

Mr R A L Lord

Special Adviser. HM Treasury

Inland Revenue Members

Mr J M Green)

Mr A J G Isaac)

Deputy Chairmen

Mr D B Rogers

Director General, Technical Divisions

Mr R A Blythe

Under Secretary, Personal
Taxation

Mr B A Mace

Assistant Secretary, Personal
Taxation

Mrs C B Hubbard

Secretary to the Committee



SECRETARY
25 JAN 1984
Mr Isaac - IR
Mr Cassel
Mr Monger
Mr Lord
PS/IR, PBS

We spoke, and you kindly offered to write to Mr Sutherland to explain that TCC could not now take his paper until May. Once the meeting has taken place, please we have a draft minute for the FST to send to the PM.



FST TO dtd

10 DOWNING STREET

From the Private Secretary

20 January, 1984.

Dear Judith,

Thank you for your letter of 10 January about the letter which Mr. Bruce Sutherland sent to the Prime Minister on 14 December. I am grateful to you for extracting this from the mass of more ordinary correspondence.

The Prime Minister has now seen Mr. Sutherland's letter, and has asked if she could please have a report from the Financial Secretary on his ideas when they have been considered by the Tax Consultative Committee.

Yours ever,

David

David Barclay

Miss J.C. Simpson,
HM Treasury.

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FROM MR. B. W. SUTHERLAND, C.B.E., F.C.A.

21
THE MANOR HOUSE
SHIPSTON-ON-STOUR
WARWICKSHIRE
SHIPSTON-ON-STOUR 61607

25
HMT.

14th December, 1983

Dear Prime Minister,

TAXATION OF EMPLOYMENT INCOMES

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The P.A.Y.E. system was introduced in 1944 when a minority only of the working population paid income tax. National insurance has evolved over the years independently of the P.A.Y.E. system but, since 1975, it has become effect an additional income tax. Because the proportion of the national income which is taken in taxation has grown to unprecedented levels, a basic defect of the P.A.Y.E. system, which was not material in its effects in 1944, has now become a significant disincentive to extra effort. Under the system the marginal combined rate of income tax and national insurance deducted from each additional £ of pay is significantly higher than the perceived average rate of deductions from pay at the previous level. There are in addition other serious anomalies due to the absence of harmonisation of the two systems of taxation.

After long consideration, I have evolved a solution to these problems which is I believe practical and capable of early introduction. It would also help to reduce the problems of the "poverty trap" and of tax evasion by casual employments. I prepared a paper outlining my proposals for a conference of tax experts organised by Douglas French who used to work for Geoffrey Howe at the Treasury. That conference agreed that the proposals merited serious consideration.

They could be implemented now and would not have to await the computerisation of the Inland Revenue. They could I believe be implemented by 6th April, 1985, which is a Saturday, in other words not in the middle of a normal pay week. They should enable further reductions in staff numbers, particularly in D.H.S.S. They would certainly reduce the costs of payroll preparation for all employers. They do, however, need a willingness to accept radical changes, since they represent a major reform of the system.

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Yours sincerely

Bruce Sutherland

The Rt. Hon. Margaret Thatcher, P.C., M.P.,
10, Downing Street,
LONDON, S. W. 1.

THE TAXATION OF EMPLOYMENT INCOMES

THE PRESENT SYSTEM

Consider the following -

1. An individual employee is paid £32.50 per week. The cost to the employer is £32.50 per week - there are no deductions for Income Tax or National Insurance and no employer's National Insurance contribution is payable. If the employer increases the employee's "gross pay" by £1 per week to £33.50 the employee's take home pay will be £30.48 and the cost to the employer, including National Insurance, will be £37.33.

To give the employee an increase of £1 per week to make his take home pay £33.50 would cost the employer an additional £9.87 per week for a single employee or £8.52 for a married employee.

2. An employer pays bonuses of £500 each to employees A and B. A's basic pay is £6,000 per annum, B's basic pay is £13,000 per annum. A receives additional take home pay of £305 at a cost to the employer (including National Insurance) of £557.25.

B receives additional take home pay of £350 at a cost to the employer of £500.

3. A married man on a weekly wage of £115 suffers deductions for Income Tax and National Insurance of about £28.75, i.e. 25%.

If he earns an extra £10 (by overtime, extra effort or otherwise) that £10 will suffer deductions of 39%.

4. A has one employment in which he earns £120 per week. National Insurance contributions are paid -

by A	£561.60
by his employer	714.48
	<hr/>
	£1,276.08
	<hr/>

B has four part-time employments in each of which he earns £30 per week. No National Insurance contributions are payable by B or by any of his employers.

5. X has one employment in which he is paid £25,000 per annum. National Insurance contributions are paid -

by X	£1,099.80
by his employer	1,399.20
	<hr/>
	£2,499.00
	<hr/> <hr/>

Y has an employment in which he earns £15,000 per annum and two non-executive directorships in each of which he earns £5,000 per annum. National Insurance contributions are paid -

by Y (Note)	£1,099.80
by his employers	2,544.20
	<hr/>
	£3,644.00
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(Note. £450 is deducted from his pay in both his non-executive appointments but can be claimed back by Y from D.H.S.S.)

All the anomalies demonstrated above flow from the fact that we have in the U.K. two taxes, Income Tax administered by the Inland Revenue, and National Insurance, administered by the Department of Health and Social Security. Each has developed along different lines for historical reasons and there is no co-ordination of thresholds, etc. The rate scales are set out in Appendix 1, which clearly shows the lack of co-ordination.

In itself, the P.A.Y.E. system has a built-in disincentive to earning extra pay through extra effort. The marginal rate on an extra £1 of pay will nearly always exceed the average rate which to most employees is the perceived norm. This is further exacerbated by the employee's National Insurance contributions which have now reached 9% on pay between £32.50 and £235 per week. It may be noted here that, before Sir Geoffrey Howe reduced the basic rate of Income Tax from 33% to 30% in his first Budget in 1979, the total marginal rate of deductions from the pay of the great majority of individuals in full-time employment was 39½% - 33% Income Tax and 6½% National Insurance contributions. After the cut in Income Tax, the total marginal rate fell to 36½%. However, National Insurance contributions have now risen to 9% so that the present total marginal rate is now 39%.

THE LACK OF SIGNIFICANCE OF "GROSS PAY"

"Gross pay" is an amount received by nobody earning more than £32.50 per week in 1983/84 and paid by no employer of such an individual. The individual actually receives a lesser sum as take home pay and the employer actually pays a greater sum which is at present 111.45% of "gross pay".

Appendix 2 shows the deductions from different levels of pay in 1983/84 (after 1st August, 1983) and Appendix 3 shows the average and marginal costs of £1 of take home pay to the employer at gross pay levels ranging

from £4,000 per annum to £15,000 per annum. Since the average deductions from pay up to £12,220 per annum in 1983/84 are less than the marginal rate on additional pay, it follows that the cost to the employer of each additional £1 of take home pay is correspondingly greater.

THE RATIONALE OF ANY REFORM OF THE SYSTEM

The anomalies in the present system arise in part because Income Tax and National Insurance have been developed by two separate Departments of government, each pursuing its own objectives without regard to those of the other, and in part because the disincentive effect of P.A.Y.E. in its varying incidence on basic pay and on additional pay has become a significant factor as a result of the increase in the overall burden of Income Tax.

The objectives to be sought in designing a rational system for raising the necessary revenue should be -

- 1) The progression of the burden of the taxes should be even and not erratic.
- 2) The marginal rate of deductions within a wide basic rate band should not exceed the average rate.
- 3) The system should be as simple as possible in administration, both by employers and by the Department or Departments involved.
- 4) The rate of Income Tax charged on any level of remuneration must be the same as that on the same level of any other kind of earned income.
- 5) On the change to the new system no individual's take home pay must be reduced and his total cost to his employer must not be increased. To achieve this, the change would have to come into effect on 6th April when the inevitable diminution in the yield of revenue could be reduced, however slightly.

PROPOSED NEW SYSTEM

To achieve the above objectives, it is proposed that -

- 1) All incomes from employment are expressed in terms of take home pay.
- 2) A basic rate tax credit is imputed to such remuneration, similar to tax credits on dividends, at present three-sevenths of the net amounts paid.

- 3) Tax allowances are paid in cash by employers and recovered by deduction from remittance of payroll tax.
- 4) A payroll tax is levied on total payrolls at a flat rate comprising the sum of -
 - (i) the basic rate of Income Tax on the remuneration paid, plus the tax credits;
 - (ii) a Social Security Tax at an appropriate rate.

REQUIREMENTS FOR IMPLEMENTATION

Take home Pay

Statutory authority would be required to enable employers to express pay rates as not less than 61% of existing rates. The lower and higher paid might present problems and employers of them may have effectively to raise pay in certain cases of the lower paid. The problem of the higher paid could be met by reducing the top rate of tax to the socially desirable maximum of 50% and by extending the higher rate bands.

Basic Rate Tax Credits

This should present no problem. The concept is that pay is treated in the same way as dividends and other income received under deduction of basic rate tax. At the end of the year the employee would be given a certificate showing the tax "deducted from" his pay which would be available to frank any repayment claim he might have and would show "total income" for higher rate tax purposes.

Higher rate Income Tax could be collected, either by deduction by employers using special tables or, alternatively, by assessment in the same way as Surtax used to be assessed and collected.

Tax Allowances in Cash

Here again, a very small modification of the present system would enable this to be implemented. The tax allowance would in effect be the present coding converted into terms of tax. A coding is in fact one-tenth of the individual's personal allowance adjusted for benefits, etc. The tax allowance would therefore be -

Coding x 3 ÷ 52 (weekly allowance) or ÷ 12 (monthly allowance).

Payroll Tax

The Income Tax component would be calculated by reference to the basic rate of Income Tax.

The Social Security Tax component would be arrived at taking into account the following -

- (1) the yield of Income Tax would be reduced since the effect of the proposals would be to reduce the total pay for tax purposes - for the great majority by the amount of their National Insurance contributions;
- (2) the extension of a flat rate charge to all pay, including that below and above the earnings limits for National Insurance, would of itself slightly increase the yield.

It would seem that the rate of Payroll Tax might be expected to be of the order of 70% of which Income Tax with a basic rate of 30% would comprise approximately 43% and Social Security Tax approximately 27%.

ADVANTAGES OF THE PROPOSAL

- (1) The anomalies in the present rate structure would be eliminated.
- (2) Separating the tax allowances from the deduction of tax would lead to the perception of the actual basic rate as being both the average and the marginal rate.
- (3) Pay rates would be more meaningful in that they would be the amounts actually paid. The disincentive effect of the present system would be removed.
- (4) There would be huge savings in administration for both employers and the Departments - Appendix 4 shows the payroll calculations at present and under the proposals.

DISADVANTAGES

- (1) Changes in Income Tax rates would mean that pay rates would have to be changed correspondingly. Thus, an increase or decrease in basic rate from 30% would imply reducing or increasing all pay rates by one-seventieth on 6th April in any year.
- (2) This would require that Budget Day is never later than say 10th March.
- (3) The transition for the lower paid and higher paid would require negotiations with those employees - this would be a transitional problem only.
- (4) National Insurance contributions as such would not be paid and seen to be paid. So far as the D.H.S.S. is concerned, employers' year

end returns (which would obviously still be required) would provide for every individual a total pay record from which the "contributions" in respect of it could easily be computed. So far as individuals are concerned, it is debatable whether this is an advantage or a disadvantage.

OTHER IMPLICATIONS

(1) Tax Allowances in Cash.

If these are introduced for individuals in employment they must also be introduced for pensioners, the unemployed and the non-employed - the self-employed could receive allowances in assessments as at present. Given the manner in which the tax allowances are proposed to be calculated, it should be possible to cover the vast majority of the pensioners and unemployed by making the payments to them of benefits in the form of the tax allowances plus net benefits paid under deduction of Income Tax. The treatment of children would appear to be the main problem for resolution in this area.

(2) Contracted-out Employments.

These would present a special problem which might be resolved by making the employers responsible for the employees' superannuation fund contributions and for a special reduced rate of Payroll Tax incorporating a lower rate of Social Security Tax.

(3) Deduction of tax at source from benefits, interest, etc.

It would be a logical development of the proposals to provide that all social security benefits and interest paid by banks, etc., should be paid under deduction of tax.

CONCLUSION

The one radical part of the proposals is that relating to the manner in which remuneration is expressed. If this is grasped and accepted, the rest falls into place. It is suggested that the potential administrative savings for employees and for the Departments and the removal of the disincentive effects of the present system are so worth-while that these proposals merit serious consideration.

MARGINAL RATES OF DEDUCTIONS FROM
EMPLOYMENT INCOMES 1983/84

<u>Income</u> £	<u>N.I.</u> %	<u>Deductions</u> <u>I.T.</u> %	<u>Total</u> %
<u>Single Man and Woman</u>			
0 - 1,690	-	-	-
Next £1	15,219	-	15,219
1,691 - 1,785	9	-	9
1,786 - 12,220	9	30	39
12,221 - 16,305	-	30	30
16,306 - 18,985	-	40	40
18,986 - 23,585	-	45	45
23,586 - 30,685	-	50	50
30,686 - 37,785	-	55	55
37,786 -	-	60	60
 <u>Married Man</u>			
0 - 1,690	-	-	-
Next £1	15,219	-	15,219
1,691 - 2,795	9	-	9
2,796 - 12,220	9	30	39
12,221 - 17,395	-	30	30
17,396 - 19,995	-	40	40
19,996 - 24,595	-	45	45
24,596 - 31,695	-	50	50
31,696 - 38,795	-	55	55
38,796 -	-	60	60

AVERAGE RATES OF DEDUCTIONS FROM PAY
AT DIFFERENT LEVELS IN 1983/84

Single Man or Woman

	£	£	£	£	£	£
Annual Pay	4,000	5,000	6,000	7,000	8,000	9,000
Tax Free Pay (personal allowance)	1,785	1,785	1,785	1,785	1,785	1,785
Taxable Pay	<u>2,215</u>	<u>3,215</u>	<u>4,215</u>	<u>5,215</u>	<u>6,215</u>	<u>7,215</u>
Deductions -						
Income Tax	664.50	964.50	1,264.50	1,564.50	1,864.50	2,164.50
National Insurance*	360.00	450.00	540.00	630.00	720.00	810.00
	<u>1,024.50</u>	<u>1,414.50</u>	<u>1,804.50</u>	<u>2,194.50</u>	<u>2,584.50</u>	<u>2,974.50</u>
	%	%	%	%	%	%
Deductions as % of Pay	25.61	28.29	30.01	31.15	32.31	33.05
Deductions as % of Additional Pay	39	39	39	39	39	39

Married Man

	£	£	£	£	£	£
Annual Pay	4,000	5,000	6,000	7,000	8,000	9,000
Tax Free Pay (personal allowance)	2,795	2,795	2,795	2,795	2,795	2,795
Taxable Pay	<u>1,205</u>	<u>2,205</u>	<u>3,205</u>	<u>4,205</u>	<u>5,205</u>	<u>6,205</u>
Deductions -						
Income Tax	361.50	661.50	961.50	1,261.50	1,561.50	1,861.50
National Insurance*	360.50	450.00	540.00	630.00	720.00	810.00
	<u>721.50</u>	<u>1,111.50</u>	<u>1,501.50</u>	<u>1,891.50</u>	<u>2,281.50</u>	<u>2,671.50</u>
	%	%	%	%	%	%
Deductions as % of Pay	18.04	22.03	25.03	27.02	28.14	29.68
Deductions as % of Additional Pay	39	39	39	39	39	39

* National Insurance Contributions are assumed at non-contracted out rates in force from 1st August, 1983.

TAX CONSULTATIVE COMMITTEE

NOTE OF A MEETING HELD IN THE TREASURY,

14 MAY 1984 AT 3.30pm TO DISCUSS THE TAXATION OF EMPLOYMENT INCOMES

PRESENT

Mr John Moore, Financial Secretary to the Treasury: in the Chair

Mr J M Green
Mr A J G Isaac
Mr D B Rogers
Mr R A Blythe
Mr B A Mace
Mrs C B Hubbard

Mr M J Kerr
Mr G W Penrose
Mr D C Potter
Mr E E Ray
Mr I P A Stitt
Mr B W Sutherland
Mr F Cassell
Mr R Lord

1. Apologies were received from Mr Christopher, Mr Kirby, Mr Loup and Mr Marlow.
2. The Financial Secretary thanked Mr Sutherland for preparing the paper which, along with the Revenue's commentary, was to be the subject of the meeting. A list of questions* had been circulated with a view to structuring the discussion around key themes, but he invited Mr Sutherland to make some preliminary comments.
3. Mr Sutherland said that since his paper had been written, he had had the opportunity to discuss matters with the Revenue, and in consequence had produced a supplementary note to clarify some of the issues or ambiguities which had been identified. He stressed that his proposed new system aimed at revenue neutrality, with anomalies to be resolved by employers. The new system would however start from the beginning of the tax year so that some of the fiscal adjustment could be used to smooth its path. In the longer term at least he envisaged cash allowances for all, as would be the case under a universal tax credit scheme. Initially any net cost, which was inevitable, would be "within the budgetary tolerance".

QUESTION 1: DISINCENTIVE EFFECTS

4. The Financial Secretary asked the Committee how important they thought the disincentive effect of a marginal tax rate (plus NIC) of 39%. Mr Sutherland explained that it was this very factor which had provoked him to consider an alternative system. When PAYE was introduced, only about 10% of the working population were affected by it. Different motivations affected the whole of the full-time employment force who were now within the PAYE net. The marginal rate of 39% on any increase over normal income had a significant effect which encouraged beating the system via the cash economy.
5. The other outside members of the Committee agreed that the marginal rate of 39% had a disincentive effect particularly in relation to overtime. Mr Potter, however, thought the main priority was to take the lower paid out of tax altogether. Mr Cassell pointed out that overtime was still very strong in the economy, and asked what evidence there was that the marginal rate was a real disincentive. Mr Sutherland said that much of the overtime paid was really disguised increments to the pay scales, which had become part

* attached

of the recognised pay structure, rather than rewards for extra effort. The examples of net of tax pay schemes proved that attitudes were different when the employee was paid net. The Financial Secretary said that the Government had recently given a lot of publicity to net pay schemes, but they had not yet been taken up widely.

6. Mr Potter argued that one should not stop people perceiving the cost of government. This concept outweighed any possible disincentive effects. Mr Sutherland thought such an approach led to pressures on the public services since individuals sought value from what they had paid for. The Revenue pointed out that the visible price of increasing benefits (by having to increase contributions to pay for them) had a restraining influence.

7. The Revenue asked how Mr Sutherland's proposed system would change peoples perceptions; individuals tended to look at the bottom line, ie take-home pay, which would be the same. Mr Sutherland argued that the employee would regard the wages and the cash allowance from the Government separately. The rest of the Committee however did not share this view. They thought that the bottom line was the only important thing, but there might be presentational problems in explaining why salaries were reduced to 61%. The Financial Secretary noted that Mr Sutherland's dual perception idea was not shared by the rest of the Committee.

QUESTION 2: SCOPE OF TAX CREDIT SCHEME ENVISAGED

8. Mr Sutherland said that he did not have in mind the major social objectives of the kind envisaged by the 1972 Tax Credit Green Paper. He was simply suggesting the conversion of the present PAYE codings into cash allowances. Pensioners and others not in employment could be dealt with by paying all benefits under deduction of tax. But for the present he confined discussion to application of the system to the taxation of employment income.

QUESTION 6: ADVANTAGES AND DISADVANTAGES OF COMBINING TAX AND NIC SYSTEMS

9. The Financial Secretary said that apart from the cost problems of a universal tax credit scheme, he was very concerned by the philosophical aspects of combining tax (from people in work) with benefits (paid to people in need). As the scale of benefits had risen in recent years above the tax allowances, there were clearly problems of interface between the two systems. But he wondered whether there was a way of combining the systems without changing attitudes to work. He saw considerable dangers in the idea of melding the work concept and the benefits concept.

10. Mr Potter and Mr Penrose shared the Financial Secretary's concern, and felt that it was important that the individual should be able to see the link between the paying of NIC and the system from which he might ultimately benefit. Mr Sutherland maintained that the effect of that identification would be to make him maximise his demands on the system.

11. Mr Ray said that he could accept melding on the deductions side, though not on benefits, but it would be necessary to make it clear that of the 39% rate, 9% represented contributions for National Insurance purposes, so that it could be related, for example to the cost of increasing pensions. The Revenue agreed that increases in NIC were generally accepted more readily because they could be related to the cost of increased benefits.

12. Mr Stitt could see a superficial attraction of melding on the deduction side, as the man in the street was not so concerned by the philosophical distinctions between the tax and national insurance systems, but the problem would be one of selling a high rate (39%). At present this problem did not arise as the two components could be seen as separate.

13. The Financial Secretary noted that if there was any support for Mr Sutherland's scheme, it was limited to combining tax and NIC into one rate, and that even this was not unanimously supported by the outside members.

QUESTION 5: 'KINKS' IN THE SYSTEM

14. Mr Sutherland suggested that the distortions in the present system should be eliminated by abolishing the lower and upper earnings limits for national insurance contributions. The Revenue pointed out that converting the lower earnings limit into a threshold was expensive, and that abolition of the upper earnings limit would increase the marginal rate of middle managers.

QUESTION 4: COMPLIANCE BURDEN

15. Mr Sutherland said that if the Government were nowadays to try to introduce a scheme such as PAYE, there would be an outcry from employers, but because it had developed gradually employers did not recognise the burdens imposed by the system. His system, being non-cumulative, would be infinitely simpler. Mr Potter considered that the PAYE system was not too complicated, and Mr Ray added that the days when employers did not have computers which could operate the payroll were disappearing. He said that the introduction of VAT had been feared by small businesses as an intolerable burden, but had, in fact, been managed perfectly well, and it had led to improved standards of book-keeping. Most small businesses now had computers.

16. At this point the Financial Secretary had to leave the meeting, and Mr Green took the Chair.

17. The Revenue pointed out that Mr Sutherland's scheme would have the effect of bringing into the system many who were currently outside it, such as casuals, part-timers, juveniles, or six million penders who were below the tax threshold. Against this Mr Sutherland pointed to those who were currently outside the system in the black economy, who would be brought within the net.

QUESTION 7: REVENUE COSTS

18. Mr Sutherland had explained in his supplementary paper, that his scheme was intended to be neutral in terms of revenue costs. Mr Green asked whether it would not, however, have some redistributive effects. Mr Sutherland accepted that it would, and that some employers might be worse off, depending on the pay structure within their companies. The vast majority, however, would break even, the overall revenue cost might be some 1/2 to 1 billion pounds. It might be necessary to have a pay increase for certain employees to protect take home pay.

19. Mr Stitt said that it was the element of rough justice in Mr Sutherland's scheme which gave him cause for concern and this might by itself be sufficient to rule the scheme out. There would have to be a very convincing reason for such a change, if the losers were to be persuaded to buy the new scheme. Mr Sutherland pointed out that in the examples of typical companies on which he had worked, the effect of his scheme had been minimal. Clearly, with some very different payroll structures, the differences

could be greater, but if the scheme was introduced following a budget which injected some fiscal adjustment in this field, there would not be many who would suffer unduly.

20. Mr Penrose drew attention to the difficulties which would arise in drafting the necessary legislation to cover this scheme for those individuals for whom net pay of 61% was not appropriate. The marginal situations would be so peculiar to the individuals involved that it was impossible to imagine the practicalities of legislating. Mr Potter agreed. Mr Sutherland suggested that the legislation would be framed in terms of the employer being allowed to reduce pay by up to a fixed percentage. Mr Ray pointed out that seeking to implement the scheme might risk provoking industrial action. Mr Sutherland accepted that gaining acceptance for the reduction of payments was the biggest hurdle the scheme would face.

21. The Revenue asked what effect the scheme would have on low incomes, on in particular those within the poverty trap since they would all now be paying tax on every pound of income. Mr Sutherland said that the benefits withdrawal rates would have to be restructured. The Revenue pointed out that this would have the effect of pushing, for example, FIS very high up the income scale.

22. Mr Green, drawing the meeting to a close, thanked Mr Sutherland and the rest of the Committee for a very interesting discussion; he would give the Financial Secretary a full account of all the reactions expressed. Mr Sutherland added that the subject was worthwhile discussing, even if his scheme was not accepted. It had useful spin-offs, such as looking again at national insurance contributions. Mr Ray however shared Mr Potter's view that it was more important to look at the taxation of the lower paid, and taking them out of the tax net where possible.

23. Mr Loup, who was unable to attend the meeting sent his comments by letter on Mr Sutherland's scheme in the following terms:-

" that the scheme propounded by Mr. Sutherland was unacceptable.

The nub of the matter was in his explanatory document when he started saying that wage earners would receive net payments with an imputed tax credit. Tax imputation is not readily intelligible to the person who does not deal with tax matters frequently.

However, more fundamental than this was the difficulty of translating existing wage term expressions into the new terms. It conjured up for me memories of the riots in this country when the calendar was changed and everyone was convinced that the Government of the day had cheated them of part of their lives. In addition, the whole scheme would put us out of line with other countries and make comparisons which are helpful, even more difficult. "

(Extract from letter)

THE TAXATION OF EMPLOYMENT INCOMES

QUESTIONS FOR DISCUSSION

Income Tax

1. How important/significant are the disincentive effects of the present PAYE system - a marginal tax (plus NIC) rate of 39% on any extra earnings but a low average tax rate? To what extent could these be changed by altering people's perceptions of the system - as in Mr Sutherland's scheme - without also changing the underlying structure of tax rates and allowances?
2. What would be the implications of a form of personal Tax Credit Scheme at the equivalent of existing personal tax allowances? What would be the effects on low-income families, married women, part-timers, self-employed, non-employed, retired?
3. What would be the implications of replacing PAYE (and NIC) by a payroll tax on employers imputed to the credit of employees? Would employers' own tax losses be available against the payroll tax?
4. Is the compliance burden imposed on employers by the present PAYE and NIC system acceptable? To what extent would Mr Sutherland's scheme reduce the burden?

Social Security

5. The scheme is designed, inter alia, to eliminate the present 'kinks' in the profile of the combined rates of tax and NIC which occur at the Lower and Upper Earnings Limits for NIC. How significant are the distortions introduced by these features? What would their removal imply for (a) yield of revenue and (b) National Insurance benefits?
6. In general, what are the advantages and disadvantages of seeking to combine the present tax and NIC systems?

General

7. What would be the implications of the scheme for Exchequer costs? Alternatively, if the scheme were introduced on a revenue neutral basis would the gains and losses to individual employees and employers be acceptable?
8. What would be the effect on administration costs?
9. Leaving costs aside, would the benefits flowing from Mr Sutherland's scheme justify the considerable reorganisation of the income tax and NIC system which would be entailed?

AVERAGE RATES OF DEDUCTIONS FROM PAY
AT DIFFERENT LEVELS IN 1983/84

Single Man or Woman

	£	£	£	£	£	£
Annual Pay	10,000	11,000	12,000	13,000	14,000	15,000
Tax Free Pay (personal allowance)	1,785	1,785	1,785	1,785	1,785	1,785
Taxable Pay	<u>8,215</u>	<u>9,215</u>	<u>10,215</u>	<u>11,215</u>	<u>12,215</u>	<u>13,215</u>
Deductions -						
Income Tax	2,464.50	2,764.50	3,054.50	3,354.50	3,654.50	3,954.50
National Insurance*	900.00	990.00	1,080.00	1,099.80	1,099.80	1,099.80
	<u>3,364.50</u>	<u>3,754.50</u>	<u>4,144.50</u>	<u>4,454.30</u>	<u>4,754.30</u>	<u>5,054.30</u>
	%	%	%	%	%	%
Deductions as % of Pay	33.64	34.13	34.54	34.26	33.96	33.70
Deductions as % of Additional Pay	39	39	39	30	30	30

Married Man

	£	£	£	£	£	£
Annual Pay	10,000	11,000	12,000	13,000	14,000	15,000
Tax Free Pay (personal allowance)	2,795	2,795	2,795	2,795	2,795	2,795
Taxable Pay	<u>7,205</u>	<u>8,205</u>	<u>9,205</u>	<u>10,205</u>	<u>11,205</u>	<u>12,205</u>
Deductions -						
Income Tax	2,161.50	2,461.50	2,761.50	3,061.50	3,361.50	3,661.50
National Insurance*	900.00	990.00	1,080.00	1,099.80	1,099.80	1,099.80
	<u>3,061.80</u>	<u>3,451.50</u>	<u>3,841.50</u>	<u>4,161.50</u>	<u>4,461.50</u>	<u>4,761.50</u>
	%	%	%	%	%	%
Deductions as % of Pay	30.61	31.38	32.01	32.01	31.87	31.74
Deductions as % of Additional Pay	39	39	39	30	30	30

* National Insurance Contributions are assumed at non-contracted out rates in force from 1st August, 1983.

TOTAL COST TO EMPLOYER OF EMPLOYEES
PAID AT DIFFERENT LEVELS IN 1983/84

	£	£	£	£	£	£
Annual Pay	4,000	5,000-	6,000	7,000	8,000	9,000
Employer's Nat. Insurance (1)	458.00	572.50	687.00	801.50	916.00	1,030.50
Total cost to Employer	4,458.00	5,572.50	6,687.00	7,801.50	8,916.00	10,030.50
per £ of Net Pay						
Single	1.50	1.55	1.59	1.62	1.65	1.66
Married	1.36	1.43	1.49	1.53	1.56	1.58
per £ of Additional Pay	1.83	1.83	1.83	1.83	1.83	1.83
Annual Pay	10,000	11,000	12,000	13,000	14,000	15,000
Employer's Nat. Insurance (1)	1,145.00	1,259.50	1,374.00	1,399.00	1,399.00	1,399.00
Total cost to Employer	11,445.00	12,259.50	13,374.00	14,399.00	15,399.00	16,399.00
per £ of Net Pay						
Single	1.68	1.69	1.70	1.69	1.67	1.65
Married	1.61	1.62	1.64	1.63	1.61	1.60
per £ of Additional Pay	1.83	1.83	1.83	1.43	1.43	1.43

(1) Employer's National Insurance Contributions include the National Insurance Surcharge

PAYROLL CALCULATIONS

	<u>At Present</u>		<u>Proposed</u>
	£	£	£
Weekly Pay - week ended 30.9.83			
At present		160.00	
Reduced by 39%			97.60
Income Tax calculation per Tables			
Pay 25 weeks to 23.9.83	4,000		
week to 30.9.83	160		
	<u>4,160</u>		
Free Pay (allowances, code 178)	894.66		
	<u>3,265.34</u>		
Taxable Pay			
Tax thereon	979.50		
Tax on pay to 23.9.83	941.70		
	<u> </u>		
Tax deductible this week		(37.80)	
National Insurance - per Tables		(14.42)	
Tax Allowance notified by Tax Office (30% of £1,785 ÷ 52)			10.30
		<u> </u>	<u> </u>
Net Pay to Employee (Note 1)		£107.78	£107.90
		<u> </u>	<u> </u>
Paid to Collector of Taxes			
Income Tax P.A.Y.E.		37.90	
National Insurance - Employee		14.42	
Employer		18.35	
Payroll Tax at 72.4% (Note 2)			70.67
		<u> </u>	<u> </u>
		£70.67	£70.67
		<u> </u>	<u> </u>

Notes

1. The small difference in net pay results from the use of the Tax Tables which produce small variations in deductions in some weeks or months.
2. The rate of Payroll Tax is assumed to be the same as the actual total Income Tax and National Insurance in this example. In practice it would be based on an average rate to be applied to the whole payroll.
3. Under the present system the above calculations have to be made separately for every individual employee. Under the proposals the only adjustment to pay would be the individual's tax allowance. The Payroll Tax would be calculated once a month on the total of the weekly and monthly payrolls for that month.

ECON POL: Tax Legislation: May 80

ec J.R. ✓



Bruce SUTHERLAND

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10 DOWNING STREET

From the Private Secretary

20 January, 1984.

Dear Judith,

Thank you for your letter of 10 January about the letter which Mr. Bruce Sutherland sent to the Prime Minister on 14 December. I am grateful to you for extracting this from the mass of more ordinary correspondence.

The Prime Minister has now seen Mr. Sutherland's letter, and has asked if she could please have a report from the Financial Secretary on his ideas when they have been considered by the Tax Consultative Committee.

David

HMT tell me that Andrew Hudson (Fin. Sec's PS) has spoken to you about this, and that there will be no progress on this until May.

Your ever,

David

David Barclay

Agree that CF should now take this on?

Miss J.C. Simpson,
HM Treasury.

Ray
14/2

~~Ray~~ CF

He has, and I am content to wait until May.

Please pass to CF as you suggest.

DWS
14/2

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10 DOWNING STREET

(4)

PRIME MINISTER

Mr. Bruce Sutherland, whom I think you may know, has sent you an interesting letter about reforming taxation on earned income. He has also written to the Chancellor, who has asked the Tax Consultative Committee (a group of outside experts chaired by John Moore) to look into his ideas.

I attach advice from the Policy Unit. Would you like a report from John Moore in due course?

Yes please

DMB

mb

19 January, 1984.

18 January 1984

Dms
MR BARCLAY 19/1

TAXATION REFORM

Mr Sutherland is correct in saying:

- (a) There are many anomalies in an income tax system which is meant to be progressive, when it is combined with a National Insurance contribution system which is only partly progressive.
- (b) He is right that gross pay is not as important to the individual as take-home pay, and is not a cost that can be found in the books of any employer.
- (c) He is right that there is additional administration in having a separate PAYE income tax system and a National Insurance system.

There is need for a little more caution about his aims (page 3). Yes, the burden of taxes should be progressive in an even-handed way. Yes, the system should be as simple as possible. Yes, it would be desirable that all earned income is treated in the same manner. However, it would be unwise to enter major reform with the proposition that there must be no losers, as this could well result in an expensive escalation of the total costs of tax relief.

Mr Sutherland's Scheme

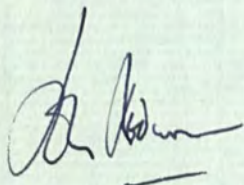
1. The expression of all incomes in terms of take-home pay would be a major change. Whilst people are mainly interested in their take-home pay, the labour market uses gross pay - as do employers when planning salary structures.
2. A basic rate tax credit system is not difficult to envisage. The complication of the higher paid requires a separate system for them. One of Mr Sutherland's methods involves employer deduction using tax tables in exactly the same way as is currently used in the system he is trying to simplify, but of course the higher paid are a relatively small group.
3. Tax allowances paid in cash has the desirable feature of making such tax expenditures much more visible, but may not simplify the present system greatly.

Mr Sutherland states the advantages and the disadvantages fairly and well, with the exception of the advertised huge savings in administration. Most companies have their income tax calculation computerised, and the computations based on pay weeks are therefore carried out at modest cost to the employer. New systems would be cheaper and simpler to install under his proposals.

Mr Sutherland draws attention to the need to introduce tax allowances for non-employed people. Care would be needed to prevent a costly auction of promises.

Conclusion

Mr Sutherland is right to remind the Treasury of the enormous complications and difficulties inherent in the present mixture of National Insurance and income tax measures in this country. His revolutionary concept of looking at net pay is a good one. It is a good idea to take the paper at the Tax Consultative Committee, where John Moore and his colleagues will examine it. There is, of course, no substitute for actually cutting taxes, and my main reservations about this proposal concern the danger of ensuring that there were no losers, which could be a costly exercise, and in the ability to deliver the administrative savings by preserving the basic simplicity of his scheme.



JOHN REDWOOD

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CC MURPHY

file



cc: John Redwood

10 DOWNING STREET

From the Private Secretary

18 January 1984

MR. PETER ROWLAND: TAX SIMPLIFICATION

The Prime Minister saw Mr. Peter Rowland yesterday at a meeting which was also attended by the Chancellor of the Duchy of Lancaster. The Prime Minister said she was most grateful to Mr. Rowland. His ideas had instigated a most productive debate within Government. She fully accepted that tax legislation could be redrafted in a much simpler and clearer way and that the process of successive amendments to the law had made it complex and had produced anomalies.

The Prime Minister said she was not, however, convinced that Mr. Rowland's proposal for a progressive re-write of tax legislation in simpler form was the correct one. The Chancellor of the Duchy explained that, over the course of this Parliament, the Government would be looking at the whole field of taxation. The first stage was, for each tax or block of tax, to consider whether there was a case for a major structural reform. The sequence in which this reform should be taken would then have to be decided. Improvement and simplification was best undertaken as part of this process of structural change. Finally, consolidation should be undertaken. It was important to work in this sequence as it would be absurd to attempt the second and third stages, if subsequently a major change in structure were implemented.

Mr. Rowland thought that with two or three assistants a programme of re-writing the tax legislation, which might reduce its length to between a half and two-thirds of that at present, would take just over a year.

The Prime Minister thought Mr. Rowland might be under-estimating the difficulty of the task. Only consolidation, on which a Lord Chancellor's Committee would soon be starting work, could go through the House without debate because there was a guarantee that no change in the law was being made. Simplification, e.g. the elimination of unnecessary and out-dated allowances, would involve a change in the law. These could well be contentious as almost every provision in the tax law had a constituency. In addition to the constraints of Parliamentary time, there was a shortage of draftsmen.

/ Summing up

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CONFIDENTIAL

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Summing up, the Prime Minister thanked Mr. Rowland for his part in stimulating the debate on tax reform. Ministers would be considering their long term strategy on the structure of tax. Once Ministers were clearer about the general direction and the sequence in which they wished to tackle the various taxes, the Chancellor of the Duchy would be in touch with Mr. Rowland to see what help and advice he could provide in the process of simplification and redrafting.

I am sending a copy of this letter to John Kerr (HM Treasury).

Andrew Turnbull

Alex Galloway, Esq.,
Chancellor of the Duchy of Lancaster's Office.

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PRIME MINISTER

Mr. Peter Rowland is coming to see you on Tuesday morning. Lord Cockfield will also be present. The purpose of the meeting, in lieu of a letter, is to thank him for stimulating an interesting debate within Government on reform and simplification of tax legislation, and to outline to him how the Government intends to tackle this objective.

As Lord Cockfield's note of 13 January makes clear, the exercise now in hand goes further than the original Rowland proposal. The stages where an input from Mr. Rowland might be useful have not yet been reached. That will come after the discussion you will be having with the two Chancellors on a long term tax strategy. This will identify a sequence for tackling the major tax blocks. Until that is done, and the basic structure of each block is settled, there is probably not much point in Mr. Rowland putting forward re-drafts.

You might like to be aware that there is some tension between the two Chancellors. The Chancellor of the Exchequer argues that it is his responsibility to set out the strategy and he appears to be trying to manoeuvre the Chancellor of the Duchy of Lancaster into Stages 2 and 3. The latter sees an important role for himself in Stage 1. It will be an important task of the tripartite meeting to work out a modus vivendi.

Attached are:

- (i) Lord Cockfield's note of 13 January;
- (ii) a sample re-draft of part of the Taxes Act, sent in today by Mr. Rowland; *(see inside file cover)*
- (iii) the record of the 14 December meeting;

/ (iv) Lord Cockfield's

- (iv) Lord Cockfield's note of 17 October;
- (v) earlier submissions from Mr. Rowland.

AT

ANDREW TURNBULL

13 January, 1984

See AT to PM 13.1.84
Para 4 (ii).

Part of draft/

Taxes Act 1985

General notes

1. The re-drafting completed earlier related to two quite short passages. This sample has now been enlarged and its scope widened by including, inter alia, the first Sections 1-33 of the Taxes Act 1970, and by taking the first steps towards the production of a consolidated Act.
 2. It is headed "draft Taxes Act 1985" because I consider a draft Act could be readily achieved given the necessary Revenue support - three officials and a secretary, all part-time.
 3. The larger sample re-enforces the view that the legislation could be halved in length and made very much clearer without any material alteration in the substantive provisions. The old age relief provisions attached as an Appendix provide a perhaps extreme illustration of what is possible.
 4. It is, however, also abundantly clear that there are numerous anomalies which call for changes in the law mostly of a minor character but some of more importance.
 5. The re-draft is subject to various detailed comments not included here. It covers the following:-

Taxes Act, 1970	Sections 1 - 34 (except the provisos to Sections 25 and 26)
	Sections 98, 375 and 377
	Section 528
	Schedule 13
Finance Act, 1972	Section 70
Finance Act, 1976	Paragraphs 4 and 5 of Schedule 4
Finance Act, 1977	Section 31 (1) and Schedule 7
Finance Act, 1981	Section 34
Finance Act, 1982	Section 53 and Schedule 9 paragraphs 1 - 4 (already forwarded)
- Extra-statutory concession A.15
- The principle decided in Earl Howe v Commissioners of Inland Revenue 7 Tax Cases 289 has been incorporated in part.

Appendix

(1A) Subject to subsection (1B) below, subsection (1) above shall have effect -

(a) in relation to a claim by a person who proves that he or his wife was at any time within the year of assessment of the age of sixty-five or upwards, as if the sum specified in paragraph (a) were £3,755; and (b) in relation to a claim by a person who proves that he was at any time within the year of assessment of the age of sixty-five or upwards, as if the sum specified in paragraph (b) were £2,360.

and for the purposes of this subsection a person who would have been of the age of sixty-five or upwards within the year of assessment if he had not died in the course of it shall be treated as having been of that age within that year.

(1B) Where the claimant's total income for the year of assessment exceeds £7,600 subsection (1A) above shall not apply except in a case where the deduction to be allowed under subsection (1) above will be increased by virtue of this subsection; and in such a case shall apply as if the sums mentioned in it were reduced by two-thirds of the excess of that total income over £7,600.

Re-draft

(2) If the claimant or his wife was 65 or over at any time during the year - or would have been had death not supervened - the said sums of £2,795 and £1,785 shall be increased to £3,755 and £2,360 respectively, provided that if the claimant's total income for the year exceeds £7,600 the amount of the increase shall be reduced (or eliminated) by deducting two-thirds of such excess.

DRAFT/
TAXES ACT 1985

PART I

I N T E R P R E T A T I O N

1. Definitions

In this Act, except where the context otherwise requires -

"PAYE" means the "pay as you earn" system for deducting tax charged under Schedule E provided by section .

"tax", where neither income tax nor corporation tax is specified, means either United Kingdom income or United Kingdom corporation tax;

"total income" has the meaning given it by section .

"year" means year of assessment;

Total income

- (1) By "total income" is meant the total income of a person from all sources computed in accordance with the Income Tax Acts.
- (2) Where tax at the basic rate for a given year is deductible from any income or charge upon income, or a tax credit based on the advance corporation tax rate for a given year forms a constituent part of an item of income, the income or charge shall be treated as appertaining to that year in calculating total income regardless of the period of accrual.
- (3) In arriving at total income -
 - (a) an assessment shall be treated as final and conclusive if it is final and conclusive for income tax purposes; and
 - (b) no allowance or adjustment not previously made under the applicable provisions of the Income Tax Acts shall be taken into account whether in respect of any -
 - (i) loss or diminution of income ;
 - (ii) capital allowance under section or section (allowances given by way of discharge or repayment);
 - (iii) relief under section (deductible interest);
 - (iv) relief by reason of the operation of an election for the herd basis.
- (4) Every return of total income shall contain the information set out in Schedule 1.

PART II

INCOME TAX CHARGE AND GENERAL PROVISIONS

CHAPTER I

THE CHARGE AND DATES FOR PAYMENT

6. The charge

Where any Act provides that income tax is to be charged for any year at any rates it shall be charged in accordance with and subject to the provisions of the Income Tax Acts -

- (a) at those rates upon all property and profits or gains respectively described in the following sections of this Act;

Schedule A - Section
Schedule B - Section
Schedule C - Section
Schedule D - Section
Schedule E - Section
Schedule F - Section

- (b) at the basic rate upon all payments of the nature mentioned in section (annuities, etc.) section (mining royalties) and section (waylean rents) which he makes and which he may deduct in computing his total income

7. The charge and years of assessment

Every assessment and charge to income tax shall be made for a year commencing on the 6th April and ending on the following 5th April

8. Dates for payment

- (1) Income tax charged under Schedule D for any year on an individual or firm in respect of the profits or gains of a trade, profession or vocation shall be payable in two equal instalments, the first on or before the 1st January in that year or thirty days after the date of issue of the notice of assessment, whichever is later, and the second on or before 1st July in the following year, provided that if the date of issue of the said notice is later than the 2nd June in that year the whole of the tax shall be payable thirty days after such date.

- (2) The provisions of the Income Tax Acts relating to the recovery of income tax shall apply to an instalment of tax as they apply to the whole of the tax.

- (3) Income tax charged for any year at other than the basic rate -

- (a) on income from which tax has been deducted (otherwise than under PAYE) or is treated as having been deducted or paid; or

(b) is chargeable under Schedule F, shall be payable on or before 1st December following that year or, if later, thirty days after the date of issue of the notice of assessment.

(4) Subject as aforesaid, and to the provisions of the Income Tax Acts, income tax shall be payable on or before the 1st January in the year for which it is charged or thirty days after the date of issue of the notice of the assessment, if later.

9. Income exempt from the charge

There shall be exempt from the charge to income tax -

annuities payable under the law of the Federal German Republic or any part thereof relating to the compensation of victims of National-Socialist persecution which under any such law is specifically exempted from tax of a character similar to that of income tax;

a disabled person's vehicle maintenance grant made to the owner under paragraph 2 of Schedule 2 to the National Health Service 1977, section 46 (3) of the National Health Service (Scotland) Act 1978, or any similar enactment in Northern Ireland;

income from "savings certificates" as defined by section 71 of the Capital Gains Tax Act 1979, not being certificates purchased in excess of the amount authorised by the relevant regulations, and subject, in the case of certificates issued or treated as issued under section 15 of the Exchequer and Financial Provisions Act (Northern Ireland) 1950, (i) to the holder being resident and ordinarily resident in Northern Ireland at the time of purchase or repayment of the certificates, and (ii) to a claim being made to the Board.

income from a scholarship, exhibition, bursary or other similar educational endowment arising to a person receiving full-time instruction at an educational establishment; the Board may consult the Secretary of State for Education and Science (or the Secretary of State for Scotland or the Governor of Northern Ireland) as to whether income is as aforesaid;

interest arising on tax reserve certificates;

CHAPTER II

PERSONAL RELIEFS

11. General

- (1) The reliefs mentioned in this Chapter shall -
- (a) require the making of a claim or, in the case of section 21, compliance with its provisions;
 - (b) be subject to the modifications made by section where an election for separate assessment has been made; and
 - (c) be unavailable to non-residents except in the circumstances and to the extent set out in section 24.
- (2) No relief under this Chapter shall be given on income the tax on which the claimant is entitled to charge against any other person, or to deduct, retain or satisfy out of any payment, except in so far as the relief would exceed tax at the basic rate on that income.
- (3) In this Chapter -

"relative" includes any person who when he was under the age of sixteen was in the claimant's custody and maintained at the claimant's own expense;

"married persons allowance" means the relief given by section 12

(1) (a).

12. Personal Relief

- (1) Subject to the provisions of subsection (2) a claimant may deduct from his total income -
- (a) £2,795, if for the year of assessment he either has his wife living with him, or is wholly maintaining her but can deduct none of the maintenance payments for tax purposes; otherwise,
 - (b) £1,785.
- (2) If the claimant or his wife was 65 or over at any time during the year - or would have been had death not supervened - the said sums of £2,795 and £1,785 shall be increased to £3,755 and £2,360 respectively, provided that if the claimant's total income for the year exceeds £7,600 the amount of the increase shall be reduced (or eliminated) by deducting two-thirds of such excess.
- (3) If the claimant's total income includes earned income of his wife he may also deduct an amount equal to that income or £1,785, whichever is less, and for this purpose earned income shall not include any pension or other income or compensation for loss of office referable to his services in an office or employment, nor any benefit under the Social Security Acts - other than unemployment benefit or a Category A retirement pension (exclusive of any increase under section

10 of the Social Security Pensions Act 1975 or the Northern Ireland equivalent).

(4) If the claimant marries during the year and such marriage is not disregarded pursuant to section 16 he may claim under subsection 1 (a) if not otherwise entitled to do so, but so that the amount deductible shall be reduced by one-twelfth of £1,010 for every complete month from the 6th April in the year to the date of the marriage.

13. Housekeeper Allowance

(1) A widower who has a resident housekeeper for the year of assessment and is not entitled to relief under section 14 may deduct £100 from his total income if -

(a) the housekeeper is a relative of his or of his deceased wife, being a person who, or, as the case may be, whose husband, has not been allowed the married persons allowance and in respect of whom no other person has, and has not relinquished, a claim to relief under this Chapter; or

(b) the housekeeper is not a relative of his or of his deceased wife and no such relative is able and willing to act.

(2) A claimant shall only be eligible for one deduction under this section for a year.

(3) This section shall apply to a claim by a widow with the necessary adaptations.

14. Relief in respect of resident children

(1) A claimant with whom a qualifying child resides during the whole or part of the year may deduct £1,010 from his total income if -

(a) he is not entitled to the married persons allowance and at least part of such residence is at a time when he is not married and living with his or her spouse; or

(b) he is a man who is entitled to the said allowance and whose wife was totally incapacitated by physical or mental infirmity throughout the year.

(2) A "qualifying child" is a child who either has not reached his sixteenth birthday on 6th April in the year in question or is in receipt either of full-time training for not less than two years for a trade, profession or vocation, or full-time instruction at an educational establishment, and who is either a child of the claimant, or has not reached his eighteenth birthday on the said date and is maintained at the claimant's own expense during at least part of the year.

(3) For the purposes of subsection (2), "child of the claimant" includes a stepchild, an illegitimate child (provided the claimant has married the other parent after the child's birth), and a child adopted by the claimant before becoming eighteen.

(4) The Inspector may require the person undertaking the training to furnish particulars in such form as the Board may prescribe, and the Board may consult the Secretary of State for Education and Science, the Secretary of State in Scotland, or the Department of Education for Northern Ireland, as to whether a child is receiving full-time instruction at an educational establishment.

(5) Where two or more are entitled to relief for the same child it shall be apportioned between them as they agree or otherwise in proportion to the length of time it resided with the respective claimants in the year.

(6) Where amounts are apportioned to a claimant in respect of two or more children he may deduct the sum of those amounts subject to a maximum of £1,010.

(7) A claimant who is the only person entitled to relief in respect of one child shall not be entitled to an apportionment in respect of another child.

15. Apportionment of relief

(1) In the absence of agreement between claimants as to an apportionment under section 14 or 18, it shall be made by such body of General Commissioners for a division in which a claimant resides as the Board may direct or, if none resides in Great Britain, by the Special Commissioners, and the Board may if it thinks fit refer the claim for relief itself to such body (or to the Special Commissioners in the case of non-residents) in which event, no other body shall have jurisdiction to make the apportionment.

(2) The Commissioners making an apportionment shall proceed as on an appeal and any person who has, or apart from section 14 (7) would have, a claim shall be entitled to appear and be heard or to make written representations.

(3) Paragraph 1 of the Obsolescent Provisions Schedule shall have effect in regard to double claims for the former child relief.

16. Claim under ss. 13 or 14 for year of marriage

A person who marries during a year of assessment may by notice in writing to the Inspector elect that his marriage be disregarded for the purposes of section 13 or 14 for that year, in which event it shall also be disregarded for the purposes of section 12.

17. Widow's bereavement allowance

If a man dies in a year for which he was entitled to the married persons allowance or would have been apart from an election under section 16 or section (separate taxation of wife's earnings), his widow may deduct £1,010 from her total income for that year and, if she has not re-married by the following 6th April, for the subsequent year

as well.

18. Dependent relatives

- (1) A claimant who maintains at his own expense -
- (a) his or his wife's mother being a widow or otherwise not living with a husband; or
 - (b) any relative of his or his wife's who is too old or infirm to maintain himself;

shall be entitled to a deduction from total income for each such person who has a total income below the aggregate of £100 and what would be received in the year from a Category A retirement pension (assuming the weekly rate to consist of the basic component only), such deduction to be the lesser of £100 and the amount by which that person's income is below the said aggregate figure.

(2) Where two or more jointly maintain such a person the deduction shall be apportioned between them in proportion to the value of their respective contributions as they may agree, failing which the apportionment provisions of section 15 shall apply.

(3) Subsection (1) shall apply to a woman claimant with the necessary adaptations but with the substitution of £145 for £100 in both places except -

- (a) where she is a married woman living with her husband;
- (b) for the purposes of apportionment as provided by subsection (2).

(4) A claimant who maintains at his own expense a person whose total income does not exceed £50 and who is either his widowed mother or mother-in-law or a relative falling within the terms of subsection 1 (b) may deduct £100 from his total income instead of the amount he would be entitled to deduct under subsections (1) - (3).

(5) A claimant who pays less than £75 a year to a person not residing with him but otherwise as mentioned in subsection (1) may deduct from his total income the lesser of the amount so contributed and the statutory allowance of £100 (or £145) restricted as aforesaid and where two or more contribute less than £75 in total each shall be entitled to deduct the lesser of his contribution and his proportion of the restricted statutory allowance.

19. Dependency on the services of a son or daughter

A claimant who by reason of old age or infirmity has to depend upon the services of a son or daughter who resides with and is maintained by him may deduct £55 from his total income.

20. Relief for blind persons

(1) A claimant who, or whose wife, is registered as a blind person during any part of a year of assessment may deduct £360 from his total income or, if both are so registered, £720, provided he relinquishes

effect of bringing within the qualifying conditions for endowment policies a policy which had previously conformed thereto except as respects the amount guaranteed upon death; or

(c) its sole object was to provide on a person's death or disability a sum substantially the same as one then secured by a mortgage of his residence or business premises, being a mortgage repayable by annual or more frequent regular instalments - but so that in Scotland for "mortgage" there shall be read a heritable security within the meaning of the Conveyancing (Scotland) Act 1924 (but including one constituted by ex facie absolute disposition or assignation).

(5) The provisions of Parts II of Schedule 2 regarding the certification of qualifying policies, of Part III which deal with industrial assurance policies and premiums to friendly societies and industrial assurance companies, and of Part IV which are supplementary shall have effect.

22 Payments to secure certain deferred annuities

(1) Subject to the provisions of this and the following section and sections and (retirement annuity pensions; contributions under various Acts) a claimant is entitled to deduct from the income tax with which he is chargeable tax at the "appropriate rate" on any sums he pays or has deducted from his salary pursuant to any Act or the terms of his employment in order to secure a deferred annuity for his widow or provide for his children after his death.

(2) The appropriate rate is the basic rate of tax where the claimant's total income exceeds £2,000, three-fourths of the basic rate where it exceeds £1,000 but not £2,000, and otherwise one-half of the basic rate but not exceeding 17½%.

(3) No relief shall be given under subsection (1) in so far as the sums so paid or deducted exceed the claimant's total income as reduced by any deductions made under this Chapter.

(4) If the claimant's liability to income tax after deducting relief under this section exceeds the tax which would have been payable at the basic rate if the claimant's total income were more than £1,000 (or £2,000 as the case may be) relief under this section shall be increased by a sum equal to tax at one-fourth of the basic rate on the payment in respect of which the relief is given less tax at the basic rate on the amount by which the total income falls short of £1,000 (or £2,000).

23 Relief under section 21 and limits on relief under sections 21 and 22

(1) A resident of the United Kingdom who is entitled to relief under section 21 in respect of a premium may deduct and retain 15 per cent thereof and payment of the balance shall be accepted as payment in full.

- (2) The payee may recover from the Board the amount so deducted.
- (3) A non-resident who is a member, or the wife of a member of the armed forces of the Crown, or is a woman serving in any of the capacities (formerly) set out in section , or who falls within section 24 (1) may claim a similar relief from the Board to be provided by way of discharge or repayment of tax but subject in the last mentioned case to the provisions of section 24 (2).
- (4) The aggregate premiums and other sums in respect of which relief is given under section 21 shall not exceed £1,500 in any year, or one-sixth of the person's total income, if greater.
- (5) The aggregate relief given under sections 21 and 22 in respect of payments to secure benefits other than capital sums on death shall not exceed tax on £100, calculated at 15 per cent in the case of premiums and at the appropriate rate as defined by section 22 (2) in the case of other payments.
- (6) Such part of a premium or other payment in respect of a life insurance policy as the Inspector considers is referable to risks arising from war or war service abroad, together with any additional sums paid to cover such risks under an existing policy, shall be ignored in calculating the one-sixth and the £100 mentioned in this section.

24. Non-residents

- (1) A non-resident shall not be eligible for the said reliefs unless he satisfies the Board that he:-
- (a) is a British subject or a citizen of the Republic of Ireland; or
 - (b) is resident in the Channel Islands or the Isle of Man; or
 - (c) having previously resided in the United Kingdom resides abroad for the sake of his health or that of a member of the family who resides with him; or
 - (d) is or was, or is a widow whose late husband was, in the service of the Crown; or
 - (e) is in the service of a missionary society or a territory under Her Majesty's protection.
- (2) The said reliefs shall not reduce the non-resident's tax liability for the year below such proportion of what it would have been had the whole of his income been chargeable to tax as the income actually chargeable bears to the whole of his income.
- (3) Subject to the proviso that the non-resident's tax liability shall not be greater than if no double taxation relief were available, income eligible for such relief and also the relief itself, shall be ignored in computing for subsection (2) purposes (i) what his liability would have been on the supposition mentioned, and (ii) the amount of income actually chargeable.

(4) In subsection (3) "income eligible for double taxation relief" means income which by virtue of an Order in Council made under Section is taxed but at a rate which is reduced such reduction being otherwise than by way of credit.

PART
TAX AVOIDANCE

Sales cum dividend etc.

- (1) This section applies to stocks or securities the interest or dividends on which are at a fixed rate only and do not depend on the earnings of a company, and to any other stocks, securities or shares in relation to which an individual has effected transactions otherwise than by a transfer through a United Kingdom stock exchange on which ad valorem duty has been paid under the heading "Conveyance or Transfer on Sale" in Schedule 1 to the Stamp Act 1891.
- (2) Subject to the provisions of subsection (4), in computing an individual's total income his income from any such stocks, securities or shares may be treated as accruing, and forming part of total income, on a day-to-day basis over the period mentioned in subsection (3).
- (3) The period shall be that for which the income is stated to be payable or, if none, the shorter of twelve months preceding the date on which it was declared payable and the period to that date from the last previous declaration of a dividend - other than an interim dividend in respect of a stated period - payment of interest, or other profit in respect of the asset concerned.
- (4) The income shall not be so treated unless to do so would increase the individual's liability to tax otherwise than at the basic rate for any year by more than 10 per cent, and then only if the individual fails to establish to the Board's satisfaction that this was fortuitous and did not occur in any of the three previous years.
- (5) The Board may by notice require an individual to furnish within a stated time (not being less than twenty-eight days) particulars of any such stocks, securities or shares in which he had any beneficial interest during a specified period the income from which during the period would have been greater had it accrued from day to day.
- (6) The Board may serve further notices until the particulars given are complete to their satisfaction and, if not satisfied, may estimate the amount to be deemed part of the individual's total income hereunder.

1. In this Schedule -

(a) "Day of absence" means a day of absence from the United Kingdom; a day at the end of which a person is in the United Kingdom is not such a day.

(b) "Qualifying period" means a period which as to at least five-sixths comprises days of absence and which contains no period of more than 62 consecutive days none of which is a day of absence.

(c) A "qualifying day" in relation to an employment is a day of absence which -

(i) is substantially devoted to the performance outside the United Kingdom of the duties of that or of that and another or other employments; or

(ii) is one of at least seven consecutive days on which the person is absent from the United Kingdom in order to perform such duties as aforesaid and which (considered as a whole) are substantially devoted thereto; or

(iii) is one on which the person concerned is travelling in or for the purpose of performing such duties as aforesaid.

(d) "Deductions" are deductions to be made in charging emoluments under Case I of Schedule E for a year of assessment being emoluments eligible for relief under paragraph 5 and net of capital allowances and the deductions mentioned in paragraph 5 of Schedule 2 to the Finance Act, 1974.

(e) "Employment" includes "office".

Long absences

2. Where the duties of an employment are performed wholly or partly outside the United Kingdom in the course of a qualifying period of at least 365 days there shall be a 100% deduction from the emoluments attributable to that period or such part thereof as falls within the year of assessment. Such emoluments shall include those for a period of leave immediately following the qualifying period but not so as to change the year of assessment to which emoluments relate.

Short or intermittent absences

3. Where there are at least 30 qualifying days in the year of assessment, whether in relation to that or any other employment, there shall be a deduction of one-quarter from the emoluments attributable to duties of an employment performed wholly or partly outside the United Kingdom.

Foreign employments

4. Where the duties of an employment with a person, body of persons or partnership resident outside, and not resident in, the United Kingdom are performed wholly abroad there shall be a deduction of one-quarter.

Emoluments eligible for relief

5. (1) For the purposes of this paragraph an employment is associated with another if they are with the same person or with persons associated with each other, and persons are associated if, applying Section 302 of the Taxes Act in the case of companies, and Section 534 in the case of an individual or partnership (whether or not in relation to a company) one controls the other or both are under the control of the same person or persons so however that no individual is treated as being under another's control.

(2) Where in a year of assessment the duties of an employment ("the relevant employment") or an associated employment are not performed wholly outside the United Kingdom the emoluments of the relevant employment eligible for relief under paragraph 2 shall not exceed such proportion of the aggregate emoluments from the relevant and any associated employments as is reasonable having regard to the nature of and time devoted to the duties performed outside and in the United Kingdom respectively and to all other relevant circumstances.

(3) The emoluments eligible for relief under paragraphs 3 or 4 shall not exceed such proportion of the aggregate emoluments for the year of assessment from the relevant and associated employments as is reasonable applying the criteria mentioned in sub-paragraph (2) or, if higher, as is equal to the qualifying days in relation to the relevant employment in the year divided by the days in that year in which the relevant or an associated employment is held provided that any day which is a qualifying day in relation to more than one employment shall count as only a fraction of that day arrived at by dividing it equally between the different employments.

Supplementary

6. (1) There shall be treated as performed outside the United Kingdom -
 (a) Duties performed on a vessel or aircraft engaged on a journey or on part of a journey which begins or ends outside the United Kingdom (but excluding any part of a journey beginning and ending in the United Kingdom) and for this purpose any area designated under Section 1 (7) of the Continental Shelf Act shall be treated as part of the United Kingdom.

(b) Duties whose performance is merely incidental to the performance of United Kingdom duties where the employment is in substance one whose duties in the year fall to be performed in the United Kingdom.

(2) Section 184 (2) the Taxes Act (place of performance of offices and employments) shall not affect any question under paragraphs 1, 2 or 3 as to where duties are performed.

7. The same day may be taken into account for the purposes of paragraphs 1, 2 and 3 but not more than one deduction shall be allowed in respect of the same emoluments.

SCHEDULE 1

SECTION

RETURNS OF TOTAL INCOME

1. The amount of the profits or gains in respect of which the person in question has been, or is liable to be, assessed.
2. The amount of the rents, interest, annuities or other annual payments receivable under deduction of tax together with the amount of each payment and the name of the person by whom it is to be made.
3. The amount of any annuities or other annual payments (not being interest) to be made out of the property or property and gains assessed on the person in question distinguishing each source.
4. The net total income by reason of the foregoing.
5. Any tax which the person in question may be entitled to deduct, retain or charge against any other person.

OBSOLESCENT PROVISIONS SCHEDULE

1. The provisions of Section 15 in regard to apportionment shall apply to a dispute between claimants in regard to the child relief formerly provided by section 10 of the Taxes Act, 1970, as amended.
2. The provisions of section 21 (3) shall not affect premiums on policies taken out by teachers in schools known in 1918 as secondary schools pending the establishment of a pension scheme.



Chancellor of the Duchy of Lancaster

PRIME MINISTER

TAX REFORM - MR PETER ROWLAND

You are seeing Mr Peter Rowland on Tuesday.

1. Since the meeting you held on 14 December, I have discussed the matter with the Chancellor of the Exchequer and had a preliminary exploratory talk with Sir Lawrence Airey. The next step I gather will be for the Chancellor to produce his own survey of the field followed by a further discussion with yourself.
2. Immediately following the December meeting I wrote a Note setting out how I thought the problem should be tackled. A copy of this Note is attached. It was sent to the Chancellor of the Exchequer and First Parliamentary Counsel.
3. Conceptually there are three steps in the process of tax reform - I use the word "reform" in a wide and non-specific sense:

First	Structural Reform
Second	Improvement and simplification
Third	Consolidation

The task must be tackled in that order: it would be absurd to consolidate if one were then to tinker afterwards: and absurd to tinker if one were contemplating changing the basic structure.

4. The first step - so far as we are concerned - must therefore be the production of a survey showing the current state of play so that we can decide whether a particular tax or sector of a tax

falls into the first, second or third category set out above. This is what is now in hand.

5. So far as Mr Peter Rowland is concerned, his interest is in the second and third categories set out above - ie improvement and simplification, followed by consolidation. For budgetary reasons we cannot go too far into the first category - structural reform - with Mr Rowland and he may well disclaim any particular expertise in this field anyway. But the fact that structural reform is contemplated is public knowledge - a Green Paper has been published on the Corporation Tax, another Green Paper on the Taxation of husband and wife, consultative documents on groups and consortia, and on the stamp duties and others are in contemplation. So it would be perfectly proper if you felt it helpful to do so to tell Mr Rowland of our general approach to the whole subject of tax "reform" and indicate how the particular suggestions he has made dovetail into such a programme.

6. Looking further ahead it will be essential to draw up a proper plan of campaign if we are to achieve our objective. An integral part of this approach will be to identify the areas falling under categories two and three above. This is vital also from Quintin Hailsham's point of view because his people need to dovetail their work on consolidation with the work undertaken elsewhere on improvement and simplification. The main burden of the work on improvement and simplification will fall on the Inland Revenue and Parliamentary Counsel and we will need to provide the resources to do it. It will be essential to tackle this job in a determined and systematic manner. It is no good leaving it to people to pick up in their spare time. I would think that once we identify the areas in which we propose working and the order in which we propose working on them, it would be most valuable to enlist Mr Rowland's further help. You may feel it would help to talk to Mr Rowland on these lines.

A.C.

A C

13 January 1984



Chancellor of the Duchy of Lancaster

THE TAXATION STUDY: THE APPROACH TO THE PROBLEM

1. The study is broadening out to cover the whole of the Inland Revenue field, not just the income tax field in which Mr Rowland was interested.
2. In these circumstances it is essential to draw up a plan for a systematic approach.

The first thing is to divide the field up into a number of relatively self-contained sectors. Each tax - income tax, corporation tax, capital gains tax and so on - will constitute a sector. But many of these can no doubt be sub-divided further into sections which could be studied separately.

3. The action which can be taken would fall under the broad headings -
 - (1) Structural reform
 - (2) Improvement or simplification falling short of structural reform
 - (3) Consolidation.

Structural Reform

4. The first question which needs to be asked is whether we can dispense with the tax altogether. The development land tax is an obvious example. The capital transfer tax is another candidate - if we could only find the money - although in real terms capital transfer tax is yielding less and less as the years go by.

5. Short of abolition, is there any sector of the tax which could be cut out altogether? An example here is the stock relief which with the demise of inflation becomes unnecessary and unjustified.
6. Additionally plans are already afoot to restructure some of the taxes. Corporation Tax is an example. Where this is so, the obvious need is to press ahead with this: the process of "improvement" and "consolidation" taking place simultaneously.

Improvement and simplification

7. This lay at the heart of Mr Rowland's approach. Here what we need to do is to work through each tax or section of a tax as it is selected for study to see what improvements and what measures of simplification are possible. The removal of "anomalies" is part of this process. This is likely to be the most time-consuming part of the whole exercise. This could also overlap the "excision" exercise suggested in paragraph 5 above.
8. One point we need to recognise is that the more obvious simplifications will be at the taxpayer's expense. The simple but unfortunate truth is that the barnacles which increasingly encrust the tax consist of reliefs introduced to meet the demands of this or that pressure group. If the tax is being reduced this may provide an opportunity of getting rid of them. So does major restructuring.

Consolidation

9. Logically this is the last step in the chain. In Parliamentary terms it is the simplest. It is impossible to generalize. Sometimes "improvement" and "consolidation" can be combined - at least when one is dealing with sections of taxes rather than complete taxes. In other instances the right course would be to make the changes in the Finance Bill first: and then consolidate separately afterwards.
10. Perhaps the first step of all would be to have a Note from the Inland Revenue setting out the present "state of play".

COCKFIELD

20 December 1983

Bruce SUTHERLAND

3-12-19



Bu 23/1

10/21

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

10 January 1984

GR
fw

file please.

I will reply after
the weekend.

D
19/1

Kay Dover,
Correspondence Section
10 Downing Street
LONDON
SW1

Dear Kay, David

LETTER FROM MR BRUCE SUTHERLAND

In Box

Mr Bruce Sutherland wrote to the Prime Minister on 14 December enclosing proposals for the reform of PAYE tax: the correspondence was sent out for an official reply. The same paper was sent to the Chancellor who is replying personally. Since Mr Sutherland is, we understand, known to the Prime Minister, you may find it helpful to have the correspondence back with a copy of the Chancellor's reply. The Tax Consultative Committee mentioned in the reply is, incidentally, a group of outside tax experts and officials chaired by the Financial Secretary.

Yours sincerely,
Judith Simpson

MISS J C SIMPSON
Private Secretary



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

10 January 1984

Bruce Sutherland Esq CBE FCA
The Manor House
Shipston-On-Stow
WARWICKSHIRE

Bruce

Thank you for your letter of 14 December enclosing the paper on taxation of employment incomes you read at Douglas French's recent conference. I am *(as you know)* always ready to look at serious proposals for tax reform - however radical - and so, of course, is the Prime Minister, who has asked me to thank you for her copy of your paper.

I understand that John Moore has already arranged with you, through John Isaac, that the paper should be taken at a meeting of the Tax Consultative Committee. This seems a sensible way of giving your scheme a thorough and open examination, and I will look forward with interest to the outcome.

*Yours etc
Nigel*

NIGEL LAWSON



10 DOWNING STREET

~~ES~~
Fixed for
9.30 on 17 Jan
Mr Rowland +
Lord Cockfield
(who will provide
a briefing note)

Dms

21/12

~~Caroline~~

Can you suggest a 1 hr
slot in January please

Then I will fix this (I
need to talk to Mr R)

David

9.30 -

10.30

Tuesday 17 Jan.

Dms

19/12

PRIME MINISTERMr. Peter Rowland

You agreed to consider how best to respond to Mr. Peter Rowland's letter of 18 November (attached) after your meeting with colleagues.

The most appropriate course, if you agree, might be to invite Mr. Rowland for a private meeting as early in the New Year as your diary permits.

Agree we arrange a meeting with Mr. Rowland for January? If so, would you prefer this to be an entirely private meeting, or to invite the Chancellor of the Duchy? ✓

Dub

with the (1/14/83)

ms

15 December 1983

FROM MR. B. W. SUTHERLAND, C.B.E., F.C.A.

THE MANOR HOUSE
SHIPSTON-ON-STOUR
WARWICKSHIRE
SHIPSTON-ON-STOUR 61607

14th December, 1983

L15

25
HMT.

~~2~~
Dear Prime Minister,

TAXATION OF EMPLOYMENT INCOMES

You and your Ministers have done much to achieve the change in the attitudes of mind to work, which have been one of the reasons for our poor economic performance since the war. However, the manner in which we tax incomes from employment works actively against the attainment of your objectives in this area.

The P.A.Y.E. system was introduced in 1944 when a minority only of the working population paid income tax. National insurance has evolved over the years independently of the P.A.Y.E. system but, since 1975, it has become in effect an additional income tax. Because the proportion of the national income which is taken in taxation has grown to unprecedented levels, a basic defect of the P.A.Y.E. system, which was not material in its effects in 1944, has now become a significant disincentive to extra effort. Under the system the marginal combined rate of income tax and national insurance deducted from each additional £ of pay is significantly higher than the perceived average rate of deductions from pay at the previous level. There are in addition other serious anomalies due to the absence of harmonisation of the two systems of taxation.

After long consideration, I have evolved a solution to these problems which is I believe practical and capable of early introduction. It would also help to reduce the problems of the "poverty trap" and of tax evasion by casual employments. I prepared a paper outlining my proposals for a conference of tax experts organised by Douglas French who used to work for Geoffrey Howe at the Treasury. That conference agreed that the proposals merited serious consideration.

They could be implemented now and would not have to await the computerisation of the Inland Revenue. They could I believe be implemented by 6th April, 1985, which is a Saturday, in other words not in the middle of a normal pay week. They should enable further reductions in staff numbers, particularly in D.H.S.S. They would certainly reduce the costs of payroll preparation for all employers. They do, however, need a willingness to accept radical changes, since they represent a major reform of the system.

I enclose a copy of my paper which I send to you in the hope that I can enlist your support for a positive examination of the proposals. They would affect not only the Inland Revenue and D.H.S.S. but also, I think, the Department of Employment. I have to say here that I personally experienced what I can only describe as a destructively negative attitude on the part of certain officials in D.H.S.S. to ideas which I submitted to the Tax Credit Study Group in 1972/73 - an Under-Secretary actually quoted the famous: "the best is the enemy of the good" at me at one stage. You know that I have very considerable experience of the tax system and of its administration and I believe that, given positive attitudes of mind in the examination of the scheme, it will be found to be practicable and that it would produce the desired effects. If there are sound reasons for rejecting it, so be it. I would be very sad, however, if negative attitudes of mind prevented proper consideration being given to it.

I am sending copies of the paper to Nigel Lawson and also to John Isaac, the Deputy Chairman of the Board of Inland Revenue responsible for personal taxation who had a representative at Douglas French's conference.

Yours sincerely

Bruce Sutherland

The Rt. Hon. Margaret Thatcher, P.C., M.P.,
10, Downing Street,
LONDON, S. W. 1.

THE TAXATION OF EMPLOYMENT INCOMES

THE PRESENT SYSTEM

Consider the following -

1. An individual employee is paid £32.50 per week. The cost to the employer is £32.50 per week - there are no deductions for Income Tax or National Insurance and no employer's National Insurance contribution is payable. If the employer increases the employee's "gross pay" by £1 per week to £33.50 the employee's take home pay will be £30.48 and the cost to the employer, including National Insurance, will be £37.33.

To give the employee an increase of £1 per week to make his take home pay £33.50 would cost the employer an additional £9.87 per week for a single employee or £8.52 for a married employee.

2. An employer pays bonuses of £500 each to employees A and B. A's basic pay is £6,000 per annum, B's basic pay is £13,000 per annum. A receives additional take home pay of £305 at a cost to the employer (including National Insurance) of £557.25.

B receives additional take home pay of £350 at a cost to the employer of £500.

3. A married man on a weekly wage of £115 suffers deductions for Income Tax and National Insurance of about £28.75, i.e. 25%.

If he earns an extra £10 (by overtime, extra effort or otherwise) that £10 will suffer deductions of 39%.

4. A has one employment in which he earns £120 per week. National Insurance contributions are paid -

by A	£561.60
by his employer	714.48
	<hr/>
	£1,276.08
	<hr/>

B has four part-time employments in each of which he earns £30 per week. No National Insurance contributions are payable by B or by any of his employers.

5. X has one employment in which he is paid £25,000 per annum. National Insurance contributions are paid -

by X	£1,099.80
by his employer	1,399.20
	<hr/>
	£2,499.00
	<hr/> <hr/>

Y has an employment in which he earns £15,000 per annum and two non-executive directorships in each of which he earns £5,000 per annum. National Insurance contributions are paid -

by Y (Note)	£1,099.80
by his employers	2,544.20
	<hr/>
	£3,644.00
	<hr/> <hr/>

(Note. £450 is deducted from his pay in both his non-executive appointments but can be claimed back by Y from D.H.S.S.)

All the anomalies demonstrated above flow from the fact that we have in the U.K. two taxes, Income Tax administered by the Inland Revenue, and National Insurance, administered by the Department of Health and Social Security. Each has developed along different lines for historical reasons and there is no co-ordination of thresholds, etc. The rate scales are set out in Appendix 1, which clearly shows the lack of co-ordination.

In itself, the P.A.Y.E. system has a built-in disincentive to earning extra pay through extra effort. The marginal rate on an extra £1 of pay will nearly always exceed the average rate which to most employees is the perceived norm. This is further exacerbated by the employee's National Insurance contributions which have now reached 9% on pay between £32.50 and £235 per week. It may be noted here that, before Sir Geoffrey Howe reduced the basic rate of Income Tax from 33% to 30% in his first Budget in 1979, the total marginal rate of deductions from the pay of the great majority of individuals in full-time employment was 39½% - 33% Income Tax and 6½% National Insurance contributions. After the cut in Income Tax, the total marginal rate fell to 36½%. However, National Insurance contributions have now risen to 9% so that the present total marginal rate is now 39%.

THE LACK OF SIGNIFICANCE OF "GROSS PAY"

"Gross pay" is an amount received by nobody earning more than £32.50 per week in 1983/84 and paid by no employer of such an individual. The individual actually receives a lesser sum as take home pay and the employer actually pays a greater sum which is at present 111.45% of "gross pay".

Appendix 2 shows the deductions from different levels of pay in 1983/84 (after 1st August, 1983) and Appendix 3 shows the average and marginal costs of £1 of take home pay to the employer at gross pay levels ranging

from £4,000 per annum to £15,000 per annum. Since the average deductions from pay up to £12,220 per annum in 1983/84 are less than the marginal rate on additional pay, it follows that the cost to the employer of each additional £1 of take home pay is correspondingly greater.

THE RATIONALE OF ANY REFORM OF THE SYSTEM

The anomalies in the present system arise in part because Income Tax and National Insurance have been developed by two separate Departments of government, each pursuing its own objectives without regard to those of the other, and in part because the disincentive effect of P.A.Y.E. in its varying incidence on basic pay and on additional pay has become a significant factor as a result of the increase in the overall burden of Income Tax.

The objectives to be sought in designing a rational system for raising the necessary revenue should be -

- 1) The progression of the burden of the taxes should be even and not erratic.
- 2) The marginal rate of deductions within a wide basic rate band should not exceed the average rate.
- 3) The system should be as simple as possible in administration, both by employers and by the Department or Departments involved.
- 4) The rate of Income Tax charged on any level of remuneration must be the same as that on the same level of any other kind of earned income.
- 5) On the change to the new system no individual's take home pay must be reduced and his total cost to his employer must not be increased. To achieve this, the change would have to come into effect on 6th April when the inevitable diminution in the yield of revenue could be reduced, however slightly.

PROPOSED NEW SYSTEM

To achieve the above objectives, it is proposed that -

- 1) All incomes from employment are expressed in terms of take home pay.
- 2) A basic rate tax credit is imputed to such remuneration, similar to tax credits on dividends, at present three-sevenths of the net amounts paid.

- 3) Tax allowances are paid in cash by employers and recovered by deduction from remittance of payroll tax.
- 4) A payroll tax is levied on total payrolls at a flat rate comprising the sum of -
- (i) the basic rate of Income Tax on the remuneration paid, plus the tax credits;
 - (ii) a Social Security Tax at an appropriate rate.

REQUIREMENTS FOR IMPLEMENTATION

Take home Pay

Statutory authority would be required to enable employers to express pay rates as not less than 61% of existing rates. The lower and higher paid might present problems and employers of them may have effectively to raise pay in certain cases of the lower paid. The problem of the higher paid could be met by reducing the top rate of tax to the socially desirable maximum of 50% and by extending the higher rate bands.

Basic Rate Tax Credits

This should present no problem. The concept is that pay is treated in the same way as dividends and other income received under deduction of basic rate tax. At the end of the year the employee would be given a certificate showing the tax "deducted from" his pay which would be available to frank any repayment claim he might have and would show "total income" for higher rate tax purposes.

Higher rate Income Tax could be collected, either by deduction by employers using special tables or, alternatively, by assessment in the same way as Surtax used to be assessed and collected.

Tax Allowances in Cash

Here again, a very small modification of the present system would enable this to be implemented. The tax allowance would in effect be the present coding converted into terms of tax. A coding is in fact one-tenth of the individual's personal allowance adjusted for benefits, etc. The tax allowance would therefore be -

Coding x 3 ÷ 52 (weekly allowance) or ÷ 12 (monthly allowance).

Payroll Tax

The Income Tax component would be calculated by reference to the basic rate of Income Tax.

The Social Security Tax component would be arrived at taking into account the following -

- (1) the yield of Income Tax would be reduced since the effect of the proposals would be to reduce the total pay for tax purposes - for the great majority by the amount of their National Insurance contributions;
- (2) the extension of a flat rate charge to all pay, including that below and above the earnings limits for National Insurance, would of itself slightly increase the yield.

It would seem that the rate of Payroll Tax might be expected to be of the order of 70% of which Income Tax with a basic rate of 30% would comprise approximately 43% and Social Security Tax approximately 27%.

ADVANTAGES OF THE PROPOSAL

- (1) The anomalies in the present rate structure would be eliminated.
- (2) Separating the tax allowances from the deduction of tax would lead to the perception of the actual basic rate as being both the average and the marginal rate.
- (3) Pay rates would be more meaningful in that they would be the amounts actually paid. The disincentive effect of the present system would be removed.
- (4) There would be huge savings in administration for both employers and the Departments - Appendix 4 shows the payroll calculations at present and under the proposals.

DISADVANTAGES

- (1) Changes in Income Tax rates would mean that pay rates would have to be changed correspondingly. Thus, an increase or decrease in basic rate from 30% would imply reducing or increasing all pay rates by one-seventieth on 6th April in any year.
- (2) This would require that Budget Day is never later than say 10th March.
- (3) The transition for the lower paid and higher paid would require negotiations with those employees - this would be a transitional problem only.
- (4) National Insurance contributions as such would not be paid and seen to be paid. So far as the D.H.S.S. is concerned, employers' year

end returns (which would obviously still be required) would provide for every individual a total pay record from which the "contributions" in respect of it could easily be computed. So far as individuals are concerned, it is debatable whether this is an advantage or a disadvantage.

OTHER IMPLICATIONS

(1) Tax Allowances in Cash.

If these are introduced for individuals in employment they must also be introduced for pensioners, the unemployed and the non-employed - the self-employed could receive allowances in assessments as at present. Given the manner in which the tax allowances are proposed to be calculated, it should be possible to cover the vast majority of the pensioners and unemployed by making the payments to them of benefits in the form of the tax allowances plus net benefits paid under deduction of Income Tax. The treatment of children would appear to be the main problem for resolution in this area.

(2) Contracted-out Employments.

These would present a special problem which might be resolved by making the employers responsible for the employees' superannuation fund contributions and for a special reduced rate of Payroll Tax incorporating a lower rate of Social Security Tax.

(3) Deduction of tax at source from benefits, interest, etc.

It would be a logical development of the proposals to provide that all social security benefits and interest paid by banks, etc., should be paid under deduction of tax.

CONCLUSION

The one radical part of the proposals is that relating to the manner in which remuneration is expressed. If this is grasped and accepted, the rest falls into place. It is suggested that the potential administrative savings for employees and for the Departments and the removal of the disincentive effects of the present system are so worth-while that these proposals merit serious consideration.

MARGINAL RATES OF DEDUCTIONS FROM
EMPLOYMENT INCOMES 1983/84

<u>Income</u> £	<u>N.I.</u> %	<u>Deductions</u> <u>I.T.</u> %	<u>Total</u> %
<u>Single Man and Woman</u>			
0 - 1,690	-	-	-
Next £1	15,219	-	15,219
1,691 - 1,785	9	-	9
1,786 - 12,220	9	30	39
12,221 - 16,305	-	30	30
16,306 - 18,985	-	40	40
18,986 - 23,585	-	45	45
23,586 - 30,685	-	50	50
30,686 - 37,785	-	55	55
37,786 -	-	60	60
 <u>Married Man</u>			
0 - 1,690	-	-	-
Next £1	15,219	-	15,219
1,691 - 2,795	9	-	9
2,796 - 12,220	9	30	39
12,221 - 17,395	-	30	30
17,396 - 19,995	-	40	40
19,996 - 24,595	-	45	45
24,596 - 31,695	-	50	50
31,696 - 38,795	-	55	55
38,796 -	-	60	60

AVERAGE RATES OF DEDUCTIONS FROM PAY
AT DIFFERENT LEVELS IN 1983/84

Single Man or Woman

	£	£	£	£	£	£
Annual Pay	4,000	5,000	6,000	7,000	8,000	9,000
Tax Free Pay (personal allowance)	1,785	1,785	1,785	1,785	1,785	1,785
Taxable Pay	<u>2,215</u>	<u>3,215</u>	<u>4,215</u>	<u>5,215</u>	<u>6,215</u>	<u>7,215</u>
Deductions -						
Income Tax	664.50	964.50	1,264.50	1,564.50	1,864.50	2,164.50
National Insurance*	360.00	450.00	540.00	630.00	720.00	810.00
	<u>1,024.50</u>	<u>1,414.50</u>	<u>1,804.50</u>	<u>2,194.50</u>	<u>2,584.50</u>	<u>2,974.50</u>
	%	%	%	%	%	%
Deductions as % of Pay	25.61	28.29	30.01	31.15	32.31	33.05
Deductions as % of Additional Pay	39	39	39	39	39	39

Married Man

	£	£	£	£	£	£
Annual Pay	4,000	5,000	6,000	7,000	8,000	9,000
Tax Free Pay (personal allowance)	2,795	2,795	2,795	2,795	2,795	2,795
Taxable Pay	<u>1,205</u>	<u>2,205</u>	<u>3,205</u>	<u>4,205</u>	<u>5,205</u>	<u>6,205</u>
Deductions -						
Income Tax	361.50	661.50	961.50	1,261.50	1,561.50	1,861.50
National Insurance*	360.50	450.00	540.00	630.00	720.00	810.00
	<u>721.50</u>	<u>1,111.50</u>	<u>1,501.50</u>	<u>1,891.50</u>	<u>2,281.50</u>	<u>2,671.50</u>
	%	%	%	%	%	%
Deductions as % of Pay	18.04	22.03	25.03	27.02	28.14	29.68
Deductions as % of Additional Pay	39	39	39	39	39	39

* National Insurance Contributions are assumed at non-contracted out rates in force from 1st August, 1983.

AVERAGE RATES OF DEDUCTIONS FROM PAY
AT DIFFERENT LEVELS IN 1983/84

Single Man or Woman

	£	£	£	£	£	£
Annual Pay	10,000	11,000	12,000	13,000	14,000	15,000
Tax Free Pay (personal allowance)	1,785	1,785	1,785	1,785	1,785	1,785
Taxable Pay	8,215	9,215	10,215	11,215	12,215	13,215
Deductions -						
Income Tax	2,464.50	2,764.50	3,054.50	3,354.50	3,654.50	3,954.50
National Insurance*	900.00	990.00	1,080.00	1,099.80	1,099.80	1,099.80
	3,364.50	3,754.50	4,144.50	4,454.30	4,754.30	5,054.30
Deductions as % of Pay	33.64	34.13	34.54	34.26	33.96	33.70
Deductions as % of Additional Pay	39	39	39	30	30	30

Married Man

	£	£	£	£	£	£
Annual Pay	10,000	11,000	12,000	13,000	14,000	15,000
Tax Free Pay (personal allowance)	2,795	2,795	2,795	2,795	2,795	2,795
Taxable Pay	7,205	8,205	9,205	10,205	11,205	12,205
Deductions -						
Income Tax	2,161.50	2,461.50	2,761.50	3,061.50	3,361.50	3,661.50
National Insurance*	900.00	990.00	1,080.00	1,099.80	1,099.80	1,099.80
	3,061.80	3,451.50	3,841.50	4,161.50	4,461.50	4,761.50
Deductions as % of Pay	30.61	31.38	32.01	32.01	31.87	31.74
Deductions as % of Additional Pay	39	39	39	30	30	30

* National Insurance Contributions are assumed at non-contracted out rates in force from 1st August, 1983.

TOTAL COST TO EMPLOYER OF EMPLOYEES
PAID AT DIFFERENT LEVELS IN 1983/84

	£	£	£	£	£	£
Annual Pay	4,000	5,000	6,000	7,000	8,000	9,000
Employer's Nat. Insurance (1)	458.00	572.50	687.00	801.50	916.00	1,030.50
Total cost to Employer	4,458.00	5,572.50	6,687.00	7,801.50	8,916.00	10,030.50
per £ of Net Pay						
Single	1.50	1.55	1.59	1.62	1.65	1.66
Married	1.36	1.43	1.49	1.53	1.56	1.58
per £ of Additional Pay	1.83	1.83	1.83	1.83	1.83	1.83
Annual Pay	10,000	11,000	12,000	13,000	14,000	15,000
Employer's Nat. Insurance (1)	1,145.00	1,259.50	1,374.00	1,399.00	1,399.00	1,399.00
Total cost to Employer	11,445.00	12,259.50	13,374.00	14,399.00	15,399.00	16,399.00
per £ of Net Pay						
Single	1.68	1.69	1.70	1.69	1.67	1.65
Married	1.61	1.62	1.64	1.63	1.61	1.60
per £ of Additional Pay	1.83	1.83	1.83	1.43	1.43	1.43

(1) Employer's National Insurance Contributions include the National Insurance Surcharge.

PAYROLL CALCULATIONS

	<u>At Present</u>		<u>Proposed</u>
	£	£	£
Weekly Pay - week ended 30.9.83			
At present		160.00	
Reduced by 39%			97.60
Income Tax calculation per Tables			
Pay 25 weeks to 23.9.83	4,000		
week to 30.9.83	160		
	<u>4,160</u>		
Free Pay (allowances, code 178)	894.66		
	<u>3,265.34</u>		
Taxable Pay			
Tax thereon	979.50		
Tax on pay to 23.9.83	941.70		
	<u> </u>		
Tax deductible this week		(37.80)	
National Insurance - per Tables		(14.42)	
Tax Allowance notified by Tax Office (30% of £1,785 ÷ 52)			10.30
		<u> </u>	<u>10.30</u>
Net Pay to Employee (Note 1)		£107.78	£107.90
		<u> </u>	<u> </u>
Paid to Collector of Taxes			
Income Tax P.A.Y.E.		37.90	
National Insurance - Employee		14.42	
Employer		18.35	
Payroll Tax at 72.4% (Note 2)			70.67
		<u> </u>	<u>70.67</u>
		£70.67	£70.67
		<u> </u>	<u> </u>

Notes

1. The small difference in net pay results from the use of the Tax Tables which produce small variations in deductions in some weeks or months.
2. The rate of Payroll Tax is assumed to be the same as the actual total Income Tax and National Insurance in this example. In practice it would be based on an average rate to be applied to the whole payroll.
3. Under the present system the above calculations have to be made separately for every individual employee. Under the proposals the only adjustment to pay would be the individual's tax allowance. The Payroll Tax would be calculated once a month on the total of the weekly and monthly payrolls for that month.

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SUBJECT

cc MASTER



cc Mr. P. Graham, FPC
FPC
Chief Sec., HMT
LPS
LCO
Mr. Stewart, HMT
CDL
John Kerr, HMT

file 50/54

10 DOWNING STREET

From the Private Secretary

14 December, 1983.

Dear Alex,

The Prime Minister chaired a meeting this morning to consider the scope for simplifying tax legislation in the light of correspondence with Mr. Peter Rowland. Present were the Lord Chancellor, Lord Privy Seal, Chancellor of the Duchy of Lancaster, Chief Secretary to the Treasury, First Parliamentary Counsel, and Mr. Graham of the Office of the Parliamentary Counsel. The papers before the meeting, in addition to the correspondence with Mr. Rowland, were a note by the Treasury dated 5 October, a minute from the Chancellor of the Duchy of Lancaster to the Prime Minister dated 17 October, and a letter from the First Parliamentary Counsel to the Prime Minister's Office dated 7 November.

Introducing the discussion, the Prime Minister said that simpler tax legislation was clearly a desirable objective, and one which the Government should strive to attain. What was required was a process of "consolidation with amendments", and it was for consideration how this might best be achieved in terms of Parliamentary procedure.

The Lord Chancellor said that the established procedure was to introduce a bill in advance in order to make any necessary changes in the law, and then to proceed with consolidation in the normal way. This had been the process adopted successfully with the Law of Property Act 1925, and on many later occasions. The Chief Secretary commented that a procedure of this nature did not address Mr. Rowland's criticism of the language in which tax law was drafted. The Lord Chancellor agreed, although he added that it would be a mistake to equate brevity with clarity.

The Prime Minister said that the task of simplification should not be defeated by procedural considerations. The process of resolving ambiguities necessarily and rightly involved policy decisions. These could be minor, but in some areas fundamental structural changes were undoubtedly needed. There was a strong case for a systematic programme of reform.

The Chancellor of the Duchy of Lancaster commented that it was essential to prepare the ground for legislative changes properly in advance. Thorough consultation, including the publication of draft

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/ clauses

Src

clauses, could do much to reduce subsequent difficulties in Parliament. The Lord Privy Seal said that changes described as modest by the Government were often seized upon by back benchers in the belief that they could substantially affect particular interest groups. Conservative MPs were especially vigilant in this respect. The Prime Minister accepted that such difficulties could arise, although exposure drafts could help a great deal to minimise them. She believed that the House in general would support the objective of clearer and more comprehensible legislation. Much of the detailed work could in principle be done in a special standing committee - this would be preferable to a select committee, whose procedures could act as a brake on progress.

The Lord Privy Seal argued that any attempt to devise a new Parliamentary procedure would only serve to delay desirable reforms, since the procedure itself would require lengthy consideration. There were advantages in including the changes in annual finance bills, since there was a generally accepted timetable for their passage. Separate bills could be exploited as a means of delaying other parts of the Government's legislative programme. Parliamentary Counsel agreed with the distinction that had been made between consolidation and restructuring. Consolidation should follow, and could not precede, changes in the substance of the law. He was, however, concerned about the demands that a major programme of tax law reform could make on drafting resources. He argued that additional staff took up to two years to train, and more existing staff could only be employed on tax work if they were diverted from other tasks. The Chief Secretary added that a large programme of tax law reform would also be a major exercise for Treasury Ministers and officials.

The Prime Minister said that there were several examples of areas of tax law which were in urgent need of attention, and which could form early items in a programme of reform. She referred in particular to corporation tax, where the aim should be to reduce reliefs and set a lower rate, relief from capital transfer tax and capital gains tax, and stamp duty. The Chief Secretary added that there was a need also to look at the income tax schedules. The whole task of drafting tax legislation would be made much easier if tax rates in general were lower - high tax rates fuelled the tax avoidance industry.

Summing up, the Prime Minister said that simplifying tax legislation was a worthwhile and exciting objective which should form part of the Government's longer term programme. She invited the Chancellor of the Duchy of Lancaster, in consultation with the Treasury and Parliamentary Counsel, to put forward proposals for a programme of reform. This would encompass structural changes in the tax system, consolidation and simplification of language. A Treasury Minister would need to be allocated to this work (the Prime Minister suggested Mr. Stewart and the Chief Secretary agreed to consult the Chancellor on this). The aim would not be to invent new principles of taxation. Rather, it would be to take the structural reforms which were necessary from time to time, as circumstances changed, and to build them into a coherent programme which could be announced in advance, and to which the Government could be committed. It was accepted that implementation
/of

CONFIDENTIAL

- 3 -

of such a programme might well require some temporary strengthening of the resources of the Parliamentary Counsel.

I am copying this letter to the Private Secretaries to those Ministers who attended the meeting, and also to John Kerr (H.M. Treasury).

Yours ever,

David

David Barclay

Alex Galloway, Esq.,
Office of the Chancellor of the Duchy of Lancaster

CONFIDENTIAL

PRIME MINISTER

SIMPLIFYING TAX LEGISLATION

You will wish to look at the Policy Unit note at A and the Cabinet Office brief at B. If you have time you may also like to refresh your memory of Lord Cockfield's minute at C and the Treasury note at D.

The major issues are:

- (i) How far is it possible to improve the drafting of tax legislation without affecting policy?
- (ii) What is the appropriate Parliamentary procedure
 - (a) where only drafting changes are involved, and
 - (b) where minor policy changes are necessary?
- (iii) Can a more rapid and effective programme of consolidation be devised, and what are the resource implications?

In the light of the discussion you will wish to consider how best to respond to Mr. Rowland.

DMB

13 December 1983

CONFIDENTIAL

13 December 1983
Policy Unit

PRIME MINISTER

SIMPLIFYING TAX LEGISLATION

Mr Peter Rowland is right. The tax legislation in this country is too complex and long-winded, and often the tax Acts are badly written.

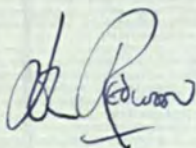
His solution, however, of rewriting the tax legislation in a simpler and clearer form, removing anomalies but leaving aside policy issues, is not sensible. Any rewritten legislation of this kind would have to be put to Parliament for approval. If this amount of time is to be devoted, it would be much better to examine the underlying policy issues at stake as well.

In Corporation Tax, for example, one of the main causes of complexity is the nexus of allowances and reliefs offered against the mainstream tax. This is being reviewed by the Treasury. We should press for an early and cogent reform. The time to simplify tax legislation is when a new Finance Bill is put to Parliament incorporating the policy review as well as simpler language.

The way forward must be to:

- (a) encourage the Treasury and Inland Revenue to propose tax reforms that result in a major simplification in the structure and incidence of taxes;
- (b) use clearer and simpler English in the resulting Finance Acts that need to be passed - perhaps drawing on some outside experts for help;
- (c) speed up the consolidation process in the usual way to simplify areas of tax law which have not been reviewed.

Greater simplicity and clarity in our tax policy and law would strengthen the hands of Ministers and the public against any efforts to frustrate the true intentions of Government.



JOHN REDWOOD

CONFIDENTIAL

MR BARCLAY

c Mr Hatfield

TAX LEGISLATION: CORRESPONDENCE WITH MR PETER ROWLAND

1. The Prime Minister is holding a meeting on Wednesday 14 December at 10.00 am to discuss the issues raised in correspondence by Mr Peter Rowland. There is also a note by the Treasury, a minute from the Chancellor of the Duchy of Lancaster to the Prime Minister (of 17 October) and a note by First Parliamentary Counsel (of 7 November; ~~DA~~ Renton recommendation No. 107).

Background

2. Mr Rowland has summarised his objectives as
- (a) shortening and clarifying Acts;
 - (b) deleting provisions of little practical importance;
 - (c) correcting anomalies and ambiguities;
 - (d) reducing the need for extra-statutory concessions;
 - (e) overturning undesirable Court decisions;
 - (f) consolidating relevant Acts.

His primary concern is the drafting of tax legislation, but some of his objectives ((b), (d) and (e)) bear on policy. He has provided examples of the end-product he has in mind and suggests that his ideas should be tested by a "trial run" for a fortnight by a team consisting of himself, a Revenue lawyer with good drafting experience, and an official "qualified to pronounce on policy matters."

3. There is general agreement that tax legislation (indeed most legislation whether concerned with taxation or not) could be better formulated, though shortness and clarity (objective (a)) do not necessarily go hand in hand. The difficulties are (1) Before introduction of a Bill

(i) policy is formulated and drafting undertaken to a tight timetable, the two activities frequently inter-acting. Very little time is available to recast material to make the best presentation of the final policy in its context.

(ii) Both policy and drafting must have in mind the need to avoid ambiguities and close loopholes if difficulties are to be avoided later for the revenue departments or in the Courts. These factors militate against shortness and simplicity.

(iii) Increasingly the device of exposure drafts is used to begin the formulation of legislation well in advance and for consultation. The result may be wider agreement but is also likely to be more complex legislation (because of points thrown up in consultation) and there are the same difficulties as in (i) in a late reformulation. They use a lot of resources.

(2) In Parliament

(iv) the process of Parliamentary amendment of the existing text is likely to produce further complication. The Parliamentary timetable, particularly for the Finance Bill, is very tight if it is to be enacted before the Budget Resolutions lapse.

(v) Rewriting in improved form immediately after Royal Assent (on the lines of Renton recommendation 107) is unlikely either to be welcomed at least in the short term by the users (who will have been lobbying and doing their homework on the original text) or to be acceptable to Parliament without further extended debate, for which time is not available under present arrangements. (The difficulty is changing the form without, however inadvertently, changing the substance.)

(3) Subsequently

(vi) Consolidation Bills do, up to a point, achieve Mr Rowland's objectives. But they may not change the law (if they do, they are not eligible for the expedited Parliamentary procedure) and could not therefore overturn "undesirable" Court decisions or make policy changes. It is, however, possible to deal with anomalies and anacronisms in a Finance Bill running in front of the consolidation. Consolidation is a major resource-consuming task.

4. The opportunities for improving matters in the pre-legislative or Parliamentary stages are few. Perhaps exposure drafts could be used more than they are (but the result will not necessarily be what Mr Rowland is aiming for). Perhaps policy-makers could try harder to keep it simple. But it is probably not realistic to suppose that the time-pressures on Ministers, officials and draftsmen in preparing legislation can usually be anything but extremely tight.

5. In any case most of the problem Mr Rowland perceives already exists in the form of the present body of tax legislation. So it is the arrangements for

consolidation or other improvement of the Tax Acts that is most important.

The main options are:-

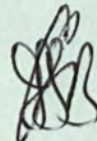
- The Rowland approach ie. a small mixed team of draftsmen and policy-makers concentrating for a short period on a manageable area of tax legislation. Presumably the result would be the subject of consultation and subsequent enactment in a Finance Bill. The question is How long would it take, using this approach, to make an impact? The Chancellor of the Duchy comments that Mr Rowland seriously underestimates the magnitude of the task.
- A special Commission (analogous to the Law Commission) charged with the task of rewriting and improving the Tax Laws (this is one of Lord Cockfield's suggestions). Such a body existed before the war but its work ran into the sand, probably because its task was too big. The volume of tax law has much increased since.
- A low-key approach (also Lord Cockfield's) asking "every Inland Revenue specialist to go through the legislation for which he is responsible and identify the opportunities [for improvement] with the intention (and determination) of acting in the ordinary Finance Bill whenever the opportunity arose". The danger is that this too would run into the sand because of other pressures on the Inland Revenue staff and on Finance Bills.
- To build on the present procedures for Consolidation Bills and pre-consolidation amendments in the Finance Bills. The Income and Corporation Tax Acts were consolidated in 1952 and 1970 and work has just begun on a new consolidation which should be completed in 1988. Other tax laws have been consolidated from time to time (Capital Transfer Tax is also going on at present). Perhaps what is needed is a clearly set out and continuing programme of tax law consolidation, and associated improvement, to a timescale that meets the problem (18 years between Income Tax consolidations may be too long) with sufficient input of resources to be able to keep to the programme. Scarcity of draftsmen is a major reason why more is not being done, but Ministers and officials would also need to find the time to discuss policy implications.

Handling

6. The Prime Minister may first like to discuss whether it is agreed that there is a problem and what sort of priority should be attached to dealing with it. In particular, Is it possible to disentangle the drafting and policy aspects or do they have to be treated together? (All those attending are likely to have views.)
7. Discussion might then concentrate on what can be done -
- (a) in preparing legislation in the first place (Treasury and First Parliamentary Counsel). Is there further mileage in the use of exposure drafts?
 - (b) in Parliament (Lord Privy Seal and First Parliamentary Counsel). It seems doubtful that there is much room for manoeuvre here.
 - (c) to improve legislation that already exists. The options are those in paragraph 5. Treasury and Chancellor of the Duchy have ideas. The Lord Chancellor will have views on the role of the Law Commission and First Parliamentary Counsel on the availability of drafting resources. Can resources be brought in? (First Parliamentary Counsel is likely to argue that suitable resources are simply not available in the private sector.)

Conclusion

8. The conclusion might be that there is a problem and it is worth giving a measure of priority to improving the situation. Exposure drafts and perhaps a conscious effort to keep legislation simple will help improve new legislation. But the main thrust must be on the body of existing legislation. The sheer volume of this suggests the need for a planned programme of consolidation and improvement (perhaps under the auspices of the Law Commission) to a reasonable timetable (a complete cycle of consolidation every ten to 12 years?) An increase of drafting resources would certainly be necessary for this.
9. The next step might be for the Treasury, in consultation with the Lord Chancellor and First Parliamentary Counsel, to make proposals for a programme of work and the resources needed.



C J S BREARLEY

Now for
Simplifying
the Tax
Legislation.

O.R.

NOTE FOR THE FILE

The attached was in a diary folder for our diary meeting with the Prime Minister at the end of December. But as it is a one-off meeting it should be dealt with in the usual way following the meeting on 14 December.

cf.

5 December 1983



Bf for
meeting on
14 Dec please
D
30/11

10 DOWNING STREET

PRIME MINISTER

Please see this letter from Mr. Peter Rowland, which I have acknowledged on your behalf.

We have arranged a meeting for 14 December to discuss Mr. Rowland's ideas, with the Chief Secretary, the Chancellor of the Duchy of Lancaster and other Ministers.

Agree to consider after that Mr. Rowland's request to come and see you?

DMS

yes no

22 November, 1983



FILE

RW

10 DOWNING STREET

From the Private Secretary

22 November, 1983

I am writing in the Prime Minister's absence in Delhi to thank you for your letter of 18 November.

I will show this to the Prime Minister on her return. I know she will be most interested to hear about the progress you are making.

(David Barclay)

P.M.B. Rowland, Esq.

Rowland

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PMBR/pw

The Rt. Hon. Margaret Thatcher, M.P.
10 Downing Street,
London S.W.1.

L 19/11
18 November, 1983

Dear Margaret,

You asked me to let you know how the tax simplification proposals we discussed were progressing.

John Isaac, one of the deputy chairmen of the Board has given considerable encouragement; so also has Brian Davenport who is the Law Commissioner concerned with tax law consolidation.

The next step seems to be to approach the new Financial Secretary when he has had an opportunity to study the file and which John Isaac says should be in a week or two's time.

In the meantime, I have undertaken some consolidation as well as simplification work, starting this time at the beginning of the 1970 Act. It has reinforced my conviction that given the necessary minimum support from the Revenue I could drastically shorten and simplify the income tax and corporation tax provisions, as well as consolidating them, in much less time than the four years it is estimated that mere consolidation will take.

I hope I may come and see you for a few minutes when you are back.

It was a happy chance to run into Dennis the other day.

Best wishes and bon voyage!

Yours and, *PMBR*
Peter M.B. Rowland.

of Chris Monkton



Office of the Parliamentary Counsel 36 Whitehall London SW1A 2AY

Telephone Direct line 01 273 5288

Switchboard 01 273 3000

D M Barclay Esq
No 10 Downing Street
London SW1

7th November 1983

Dear Barclay ✓

*DMB
7/11 Please be for meeting.*

TAX LEGISLATION: MR ROWLAND

In case what is said in paragraph 9 of the Treasury note leads anyone to suppose that there is any future in Renton Recommendation No (107), I enclose a note on it.

I am sending copies of this letter and the enclosure to those to whom you sent copies of the papers for the meeting on 14th December.

*Yours sincerely
George Engle*

GEORGE ENGLE

Enc.

TAX LEGISLATION: MR PETER ROWLAND
RENTON COMMITTEE RECOMMENDATION NO. (107)

Note by First Parliamentary Counsel

Paragraph 9 of the Treasury note mentions the procedure - suggested in 1975 by the Renton Committee in paragraph 18.38 and Recommendation No. (107) of their Report - under which any Act found to be obscure or otherwise defective in form could be rewritten after Royal Assent in clearer language and re-enacted without using much Parliamentary time under a procedure similar to that used for consolidation Bills. It adds that the Treasury do not know why this has never been implemented.

2. As a matter of history, Recommendation No. (107) was one of a number of Renton recommendations which in the first quarter of 1976 the Government were minded to refer to a Joint Committee for further consideration as involving changes in Parliamentary procedure. In the event, the idea of a Joint Committee seems to have been dropped in the Spring of 1976, though I have been unable to trace any record of a formal decision to this effect. Since then nothing more has been heard of Recommendation No. (107).

3. There were and are substantial reasons for not accepting Recommendation No. (107). Stated very briefly, they are as follows.

(1) The Recommendation is addressed to Bills that "are found to be obscure or otherwise defective in point of form" - but is silent as to when and by whom a Bill might be so found.

(2) It would be intolerable if an Act (Act A) were to come into force, only to be overtaken within a matter of weeks or months by another Act (Act B) intended to have the same effect but expressed in different terms. So commencement of Act A would somehow have to be delayed if a proposal to re-write it were made.

(3) This postponement would be impossible in the case of the Finance Bill since budget resolutions given temporary statutory effect under section 1 of the Provisional Collection of Taxes Act 1968 lapse on 5th August at the latest, and the Finance Bill is normally passed at the end of July with only a few days to spare.

(4) The revising procedure is envisaged as involving the Joint Committee or a similar Committee. For an Act passed at the end of July this would make it impracticable for it to be overtaken by an "improved" Act until the following November or December at the earliest.

(5) Parliamentary Counsel are normally absent on leave in August, and from September onwards are fully occupied in preparing Government Bills for introduction early in the new Session. They would have no time to spare for further work on Acts already passed, even if there were no "spillover" to add to their burdens.

(6) Practicalities of this kind apart, there would be the difficulty of deciding what constitutes a "formal improvement". For example, one source of defectively drafted provisions in Acts is the carrying against the Government of an Opposition or back-bench amendment such as the well-known "Rooker-Wise amendment" in s.22(2) of the Finance Act 1977 (which, to say the least, was ambiguous). Would it be regarded as permissible to replace s.22(2) by provisions like s.24(5) to (8) of the Finance Act 1980 (which substituted a workable, but in several respects different scheme)? The removal of obscurities in a provision involves taking a view of what the provision is intended to mean, and that cannot always be certain, at any rate where the provision was not produced by the sponsors of the Bill. Would the revising Committee be allowed to take responsibility for resolving such points - a process which inevitably means changing the law?

4. The opposition likely to be encountered by any form of foreshortened Parliamentary procedure for making drafting improvements in Acts after Royal Assent can to some extent be judged the fate in 1977 of the Labour Government's Acts of Parliament (Correction of Mistakes) Bill. The Bill was suggested by the Clerk of the Parliaments as a means of correcting a very limited class of mistakes, namely mistakes made by the House authorities (usually undetected printing errors) of the sort that cannot be put right by the Clerk of the Parliaments as simple printing errors. His suggestion was explicitly made on the basis of Renton Recommendations (106) and (107). The Bill had a bad press, and the Times in a leader headed "A Bill to promote slipshod legislation" said: "If Parliament, by reason of its legislative incontinence and hugger-mugger proceedings, is no longer capable of ensuring that it legislates with care and precision, the remedy for that sad degeneration is not to lighten the procedural penalties for carelessness, but to increase them". The (Conservative) Opposition Chief Whip had earlier agreed to treat the Bill as non-contentious, but in the event the Shadow Cabinet decided to oppose the Bill on the ground that it would provide an easy way out for any government that might find itself with a defective Act on its hands as a result of rushing legislation through under a guillotine. It is true that the Bill was generally taken to apply to a wider range of "mistakes" than was in fact the case; but Recommendation (107) would cover "formal" or "drafting" improvements of all sorts, and would thus cover at least some of the ground that the 1977 Bill was believed to cover.

GE

Parliamentary Counsel Office

7th November 1983

Econ Pd
May 1983
Simplifying Tax
Legislation

FOR THE
LIBRARY OF
CONGRESS
EST. NOV 1983

Faint, mostly illegible text, possibly bleed-through from the reverse side of the page. The text appears to be a formal document or report, with some words like "legislation" and "tax" visible.

Faint text at the bottom of the page, possibly a footer or page number.

David

Sue

On ① - thanks

On ② - yes. But make

sue he gets the
latest, revised, version
from CDL.

1) I have informed of the minute
Sir Robert Armstrong's office ^{4/11}
that you will be at
Chequers for the Summit -
they will do the necessary.

2) Your letter to Charles
Marshall refers, 25.10.83.

Chris Mankton from the
Policy Unit has requested
a copy, with the
enclosures referred to in
the letter (i.e. notes by
HMT and CDL).

May I send him copies?

Susan 4.11.83.

Covering CONFIDENTIAL



File

Bm
C. Ains
Mankton

10 DOWNING STREET

From the Private Secretary

25 October 1983

BIF | A meeting to discuss Mr. Peter Rowland's ideas for simplifying the tax legislation has been arranged for 14 December at 10 am.

I enclose copies of the papers for this meeting - a note by the Treasury, and a minute to the Prime Minister from Lord Cockfield.

I am sending copies of this letter and the enclosures to the Private Secretaries to the Chief Secretary and First Parliamentary Counsel, and of the letter and the Treasury note only to the Private Secretaries to the Lord Chancellor and the Chancellor of the Duchy.

(David Barclay)

Charles Marshall, Esq.,
Lord Privy Seal's Office

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10 DOWNING STREET

From the Private Secretary

21 October 1983

Simplifying the Tax Legislation

In my letter to you of 19 October I said that the Prime Minister would be holding a meeting to discuss Mr. Peter Rowland's ideas for simplifying the tax legislation. I also said that the Prime Minister had asked for the Chancellor of the Duchy's minute of 17 October on this subject to be placed on the agenda.

As I mentioned to you over the telephone, it would be helpful if you could circulate a slight revision of the Chancellor of the Duchy's minute for circulation to other Ministers attending the meeting, and to Parliamentary Counsel. In particular, you may wish to omit paragraph 7.

David Barclay

Alex Galloway, Esq.,
Chancellor of the Duchy of Lancaster's Office.

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10 DOWNING STREET

From the Private Secretary

19 October 1983

SIMPLIFYING THE TAX LEGISLATION

The Prime Minister was grateful for the Chancellor of the Duchy's minute of 17 October about Mr. Rowland's ideas for simplifying tax legislation. The Prime Minister has asked for a meeting to discuss this minute, together with the note sent to this Office by Judith Simpson on 5 October. I will be in touch with you, and with the Private Secretaries to the Lord Chancellor, the Leader of the House, the Chief Secretary and First Parliamentary Counsel to arrange a time.

MR. D. BARCLAY

Alex. Galloway, Esq.,
Chancellor of the Duchy of Lancaster's Office.

CONFIDENTIAL



Revised minute for Prime
Minister's meeting on
17 October attached.
Please destroy earlier
version of the same date.
Thank you.

with compliments

Private Secretary to

CHANCELLOR OF THE DUCHY OF LANCASTER

Whitehall London SW1A 2AS

Telephone 01-233 8550

C. Am. S. Hawker

Chancellor of the Duchy of Lancaster

PRIME MINISTER

SIMPLIFYING THE TAX LEGISLATION

1. I have now seen Mr Rowland twice and I have also discussed the matter with the Lord Chancellor. I have read the Treasury memorandum sent to your Private Secretary on 5 October.
2. Mr Rowland believes that the present income tax and corporation tax statutes, which run to some 1000 pages, could be rewritten in simpler, more intelligible language and that the total length could be reduced by 40%. He tells me that given the services of one parliamentary draftsman, with an assistant, and suitable back up from the Inland Revenue, he could do this himself in twelve months.
3. Mr Rowland's plaint finds an echo in what the Royal Commission said in 1955 -

"We are not satisfied that it is impossible to introduce greater clarity and concision into the drafting of income tax legislation. The point is so often a matter of public criticism, and for more than a generation it has been a subject of judicial complaint."

4. The Lord Chancellor has already put in hand, through the Law Commission, preparatory work on consolidating the Income Tax and Corporation Tax Acts. The present estimate is that it will take 5 years for this work to be completed.
5. Mr Rowland however wishes to go further than pure "consolidation". It is of the essence of consolidation that it does not change the law, and it is on this basis that Parliament accepts that consolidation bills should be passed on the nod. Mr Rowland wishes to take the opportunity of correcting anomalies and eliminating what he regards



Chancellor of the Duchy of Lancaster

as unnecessary or unduly pernicketty provisions. A great deal of the shortening he envisages probably comes from this source. But - coupled with the process of extensive rewriting in the interests of clarity and brevity - this would inevitably mean that the law would be changed. As a result the special Parliamentary procedure for consolidation bills could not be used: and experience shows that even the smallest changes can prove contentious.

6. Mr Rowland's objective is wholly admirable. But he seriously underestimates the magnitude of the task and of the problems involved. Indeed the basic problem goes back to the approach adopted by the Courts to the interpretation of statute law. And nowhere do the Courts interpret statutory provisions more strictly than in the fiscal field. The Courts do not concern themselves with the broad intent of the statute but only with its precise terms. This approach is mirrored by that of Parliament which is unwilling to permit an area of discretion to the judges but insists on spelling out with great exactitude what the rights and obligations of the subject are. As a practical matter, there is little prospect of ever achieving a change in this situation.
7. The question we have to face is how, given this background, do we make progress?
8. One possibility would be to make a frontal attack upon the problem: to set up a special body analogous to the Law Commission with its own draftsmen and supporting staff, charged with the task of rewriting and improving the taxing statutes. Such a body could divide up the corpus into a number of quasi independent parts (for example, personal allowances, Schedule D, PAYE and Schedule E and so on) which it would work through in sequence, producing a preliminary draft and consultation paper on each, followed by a final draft. At the end of the day all the pieces would be brought together in a single, new Bill.



Chancellor of the Duchy of Lancaster

This is all very reminiscent of the Consolidation Committee which operated for many years before the War and which indeed was still in being when I first joined the Inland Revenue. Its efforts finally ran into the sand. But this is no reason why we should not try again.

9. If we were to pursue this approach, the first essential step would be to work out the modus operandi in some detail; to make at least a broad estimate of the resources required and the time it would take; and to assess the implications in relation to Parliamentary procedure and time required.
10. An alternative approach - which lacks the glamour but might well produce worthwhile and much earlier results - would be to ask every Inland Revenue specialist to go through the legislation for which he is responsible and identify the opportunities with the intention (and determination) of acting in the ordinary Finance Bill whenever the opportunity arose. There is in fact a precedent for this in the reform of the discretionary trust provisions for capital transfer tax proposed in the 1982 Finance Act a matter for which I had Ministerial responsibility. Instead of proceeding by way of amendment to the existing provisions, we simply rewrote the whole of the relevant law in its new guise and this was incorporated in the Act.
11. The final point I would make is that there is a large element of policy involved in all recasting of statutory provisions even if the objective is primarily simplification and not change. It follows that close Ministerial involvement and direction would be essential.
12. I am copying this to the Lord Chancellor and to the Chancellor of the Exchequer.

A.C.
A C

17 October 1983

CONFIDENTIAL



Chancellor of the Duchy of Lancaster

PRIME MINISTER

SIMPLIFYING THE TAX LEGISLATION

- See Revised version*
1. I have now seen Mr Rowland twice and I have also discussed the matter with the Lord Chancellor. I have read the Treasury memorandum sent to your Private Secretary on 5 October.
 2. Mr Rowland believes that the present income tax and corporation tax statutes, which run to some 1000 pages, could be rewritten in simpler, more intelligible language and that the total length could be reduced by 40%. He tells me that given the services of one parliamentary draftsman, with an assistant, and suitable back up from the Inland Revenue, he could do this himself in twelve months.
 3. Mr Rowland's plaint finds an echo in what the Royal Commission said in 1955 -

"We are not satisfied that it is impossible to introduce greater clarity and concision into the drafting of income tax legislation. The point is so often a matter of public criticism, and for more than a generation it has been a subject of judicial complaint."
 4. The Lord Chancellor has already put in hand, through the Law Commission, preparatory work on consolidating the Income Tax and Corporation Tax Acts. The present estimate is that it will take 5 years for this work to be completed.
 5. Mr Rowland however wishes to go further than pure "consolidation". It is of the essence of consolidation that it does not change the law, and it is on this basis that Parliament accepts that consolidation bills should be passed on the nod. Mr Rowland wishes to take the opportunity of correcting anomalies and eliminating what he regards as unnecessary or unduly pernicketty provisions. A great deal of the shortening he envisages probably comes from this source. But - coupled with the process of extensive rewriting in the interests of clarity and brevity - this would inevitably mean that the law would be changed. As a result the special Parliamentary procedure for consolidation bills could not be used: and experience shows that even the smallest changes can prove contentious.
 6. Mr Rowland's objective is wholly admirable. But he seriously underestimates the magnitude of the task and of the problems involved. Indeed the basic problem goes back to the approach adopted by the Courts to the interpretation of statute law. And nowhere do the Courts interpret statutory provisions more strictly than in the fiscal field. The Courts do not concern themselves with the broad intent of the statute but only with its precise terms. This approach

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Chancellor of the Duchy of Lancaster

is mirrored by that of Parliament which is unwilling to permit an area of discretion to the judges but insists on spelling out with great exactitude what the rights and obligations of the subject are. As a practical matter, there is little prospect of ever achieving a change in this situation.

7. A further complication lies in the style of drafting which over the years has developed in the chambers of Parliamentary Counsel. They are very much a law unto themselves; they are responsible only to you yourself: and like all practitioners of mystic arts they guard their territory with great jealousy.
8. The question we have to face is how, given this background, do we make progress?
9. One possibility would be to make a frontal attack upon the problem: to set up a special body analogous to the Law Commission with its own draftsmen and supporting staff, charged with the task of rewriting and improving the taxing statutes. Such a body could divide up the corpus into a number of quasi independent parts (for example, personal allowances, Schedule D, PAYE and Schedule E and so on) which it would work through in sequence, producing a preliminary draft and consultation paper on each, followed by a final draft. At the end of the day all the pieces would be brought together in a single, new Bill.

This is all very reminiscent of the Consolidation Committee which operated for many years before the War and which indeed was still in being when I first joined the Inland Revenue. Its efforts finally ran into the sand. But this is no reason why we should not try again.

10. If we were to pursue this approach, the first essential step would be to work out the modus operandi in some detail; to make at least a broad estimate of the resources required and the time it would take; and to assess the implications in relation to Parliamentary procedure and time required.
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Chancellor of the Duchy of Lancaster

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13. I am copying this to the Lord Chancellor and to the Chancellor of the Exchequer.

A.C.

A C

17 October 1983

CONFIDENTIAL

PRIME MINISTER

Simplification of Tax Law : Mr Peter Rowland

The Treasury have now produced the attached commentary on Mr. Peter Rowland's ideas for simplifying tax law.

They agree that drafting could be improved. But they say that the process is more complex, and requires more resources than Mr. Rowland seems to believe - not least because of the need (as they see it) to consult widely before any changes are made.

Nevertheless, provided changes can be confined to drafting, there are several avenues worth exploring. Two are available now:-

1. The Law Commission have begun a consolidation of income tax and corporation tax legislation. Treasury suggest that Mr. Rowland might feed in his views to this exercise, which is not due to finish until 1988.
2. The Inland Revenue are increasingly using "exposure drafts" to clear up ambiguities in advance. The next such draft will be of the provisions held over from the 1983 Finance Bill - again Mr. Rowland's views could be invited.

The third possible approach is provided by the Renton Committee's recommendation that there might be a simplified parliamentary procedure for rewriting obscure or otherwise defective bills in clearer language. The reasons why this recommendation has never been adopted might be worth exploring at your proposed meeting.

In more recent letters, Mr. Rowland has argued that, in addition to purely drafting improvements, further simplification would be possible with only minor changes in the substance of tax law. You may feel that the Treasury are right to be cautious

/ about

about this proposal, in view of the danger that even minor
legislation can trigger parliamentary controversy.

Finally, Treasury have doubts about Mr. Rowland's suggestion
for a "trial run" of his approach, involving an Inland Revenue
lawyer, an officialⁿ "qualified to pronounce on policy" and
himself. You may like to consider this idea further in the
light of discussion at your meeting.

Agree that we should now set up a meeting, with the
Lord Chancellor, the Leader of the House, The Chancellor of
the Duchy, the Financial Secretary and First Parliamentary
Counsel??

Yes Mr

Dms

10 October 1983



Mr T Flescher No 10
PS/Lord Cockfield
PS/Lord Chancellor
PS/Chancellor
Mr Isaac IR
Mr Lewis IR
PS/IR
Sir G Engle Parly Counsel

Treasury Chambers, Parliament Street, SW1P 3AG

Peter M B Rowland esq
Rowland, Debono Ltd
11 Upper Brook Street
LONDON
W1Y 1PB

- Rte to Michael Schlos 16/9

7 October 1983

Dear Mr. Rowland,

The Financial Secretary has asked me to thank you for your letter and enclosures of 4 October.

Mr Ridley would of course be delighted to see you to discuss the matter. At present he has a fully committed diary until the end of October. He would though be happy to see you in early November, if this would suit perhaps your secretary could contact me on 01-233-3608 to make the detailed arrangements.

Yours Sincerely
E Kwiecinski
E KWIECINSKI
Private Secretary

c. Chris Markham
D



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

5 October 1983

PSA

R 7/10

Tim Flesher Esq
10 Downing Street
London SW1

Dear Tim,

... You wrote to me on 8 September and Willie Rickett on 19 and 29 September, about the correspondence which you and we had been having with Mr Peter Rowland of Roland, Debono Limited. I now attach the note you asked for as background to the Ministerial discussion on Mr Rowland's ideas which the Prime Minister has decided to hold. I hope that the minute is self-explanatory.

There is one other point you may like to bear in mind. Some of the questions Mr Rowland makes raise general questions about the handling of legislation and Parliamentary procedures and timetable. You may therefore like to consider, if you had not already done so, inviting the Lord Chancellor and the Leader of the House to be represented at any meeting, as well as Lord Cockfield and Parliamentary Counsel.

Yours,

Judith

MISS J C SIMPSON
Private Secretary

SUMMARY OF CORRESPONDENCE WITH MINISTERS

(a) Drafting

Mr Peter Rowland first wrote to the Financial Secretary in January. In a series of letters he suggested that tax legislation was unnecessarily verbose and obscure and sometimes plain wrong. His suggestion was to rewrite it in shorter, simpler language, and at the same time to remove anomalies and ambiguities: and he produced an example of what he had in mind. In reply, the Financial Secretary explained the difficulties under which the Parliamentary draftsmen work, acknowledged that there would be scope for improvement if Acts of Parliament were rewritten at leisure, but pointed to the difficulty of changing the drafting without inadvertently changing the meaning, and the problem of obtaining Parliamentary time for consideration of revised versions of legislation which deliberately introduced some changes of substance.

2. In his letter of 7 September, Mr Rowland summarised his objectives as:-

- (a) shortening and clarifying Acts;
- (b) deleting provisions of little practical importance;
- (c) correcting anomalies and ambiguities;
- (d) reducing the need for extra-statutory concessions;
- (e) overturning undesirable Court decisions;
- (f) consolidating relevant Acts.

He suggests that his ideas should be tested by a "trial run" for a fortnight by a team consisting of himself, a Revenue lawyer with good drafting experience, and an official "qualified to pronounce on policy matters".

(b) Content

3. In his first letter Mr Rowland made it clear that he was concerned only with the drafting of legislation, not its content. He said "I am not criticising the content; on the contrary, I think the Revenue officials do a quite remarkable job in spotting the numerous consequential amendments which new provisions, or changes in the law, so often necessitate."

4. In his latest letter to the Prime Minister, however, he says "an excess of Revenue caution can stifle the good intentions of Ministers" and he encloses a note in which he criticises as unnecessarily elaborate some of the safeguards in the 1982 "purchase of own shares" legislation.

COMMENTS

(a) Drafting

5. Criticism of the length, complexity and obscurity of tax legislation has a very long history. The 1920 Royal Commission on Taxation called for a codification of tax law which would reenact the law in a modern form and incorporate decisions of principle in the Courts. A highly qualified "Codification Committee" worked on this for 9 years, but their efforts were finally abandoned in 1939. Since then, for a variety of reasons, the size and complexity of tax law has increased substantially.

6. Finance Bills are drafted by Parliamentary Counsel on the instructions of the Revenue Departments. Because of the late stage at which many policy decisions are taken, drafting frequently has to be done against a very tight timetable, with little

opportunity for polishing the final product. Moreover, some policy decisions on which the original drafting is founded may subsequently be changed, either as a result of policy changes by Ministers before the Bill is published or following discussion in Parliament. Counsel has therefore to adopt a flexible approach which will accommodate quick changes as the Bill progresses, and inevitably that may not result in the provisions which finally emerge being framed in the most economical and elegant way.

7. It is true, therefore, as Mr Rowland suggests that it should be possible to produce improved versions of many existing tax provisions. That is not a simple task - a shorter version is often not a clearer version; it is all too easy to change the meaning inadvertently and in removing one ambiguity to introduce another. But, given time and resources, everyone is agreed that improvements should be possible.

8. Against this background it is doubtful whether Mr Rowland's suggested "trial run" would produce any very new information. It would be disappointing if a talented team of the kind he envisages could not produce some better, shorter drafts. Extensive consultation would be necessary to establish whether they were really better, and had not inadvertently changed meanings, introduced new complexities and ambiguities etc. The total resources required for this whole process over the 1,000 pages or so of the Income and Corporation Tax legislation could be considerable - within Government, within the accountancy and legal professions and in Parliament. There is a special Parliamentary procedure for ordinary consolidation Bills which is intended to minimise the Parliamentary time devoted to them; but Parliament might not be willing to apply it to a Consolidation Bill with radically changed wording even where there was no intention of changing the substance.

9. The Renton Committee, which reported in 1975, suggested a new procedure under which any Bill which was found to be obscure or otherwise defective in form could be rewritten shortly after Royal Assent in clearer language and ~~re~~-enacted without using much Parliamentary time under arrangements similar to those used for Consolidation Bills. This recommendation applied to all types of legislation, not just Finance Bills. We do not know why it has never been implemented - it is presumably a matter primarily for the Lord Chancellor and the Leader of the House. The considerations no doubt included the pressure on Parliamentary time and on the resources available for drafting work in Parliamentary Counsel's office and in Departments.

10. All the above is concerned with improving the drafting of legislation. Mr Rowland really enters a new ball game when he wishes to make changes to the law in the process of streamlining it - to delete provisions of practical importance, to correct anomalies and ambiguities, to enact extra-statutory concessions, to overturn Court decisions etc. This inevitably means that it could not be a purely technical/legal exercise but would entail a heavy involvement for Ministers and officials in the necessary policy decisions. And by the same token the consultative process would need to embrace not only the professions (on the technical details) but also industry and commerce (on the substance of the provisions).

11. The Parliamentary implications would be important. If the substantive law itself were being changed, experience suggests that it would be impossible to confine discussion to the mainly minor changes being made when technically the whole of the various pieces of tax legislation were being re-enacted. So there would be a danger that such a Bill would give rise to a wideranging, difficult and lengthy

debate. Apart from the problems of fitting a Bill of this kind into the Parliamentary timetable, all the indications are - judging from the recent report of the Procedure Committee - that Parliament is not sympathetic to the suggestion that more time should be devoted to tax legislation.

12. What then can be done if - with the best will in the world - the resources of manpower, money and Parliamentary time are not available for something more ambitious? One possibility is an occasional ancillary Finance Bill of the kind Sir Geoffrey Howe advocated, dealing with minor uncontroversial changes such as the correction of anomalies, extra-statutory concessions etc. But the Procedure Committee rejected that idea in favour of their much more sweeping proposals.

13. There are 2 developments which clearly should help. One is the increasing use we have made in the past few years of "exposure drafts" of legislation well in advance of the publication of the Finance Bill. This allows the representative bodies to make detailed comments over a much longer period than would normally be possible, and provides an opportunity for clearing up ambiguities and obscurities before the Bill is introduced. In practice, this often results in increasing the length of the legislation. During the autumn we shall be publishing in this way most of the provisions held over from the original 1983 Finance Bill as a result of the Election.

14. The second point is that, since the correspondence with Mr Rowland began, a new consolidation of the main tax legislation in the Income and Corporation Taxes 1970 and subsequent Finance Acts has been announced by the Law Commission. A consolidation is, of course, nothing like so ambitious as Mr Rowland's proposals. It amalgamates the existing legislation in a single Act without altering its substance (apart from any minor changes which can be made - in the Finance Bill - as preconsolidation amendments). But it should save a lot of time for all users of tax legislation

because it means that all the provisions on each topic will be gathered together in one place in a single Act rather than scattered a succession of separate enactments. And the Consolidation Act will be considerably shorter than the legislation it replaces. Even a consolidation of legislation on this scale is a major task - it will not be completed until 1988. To the extent that Mr Rowland is primarily concerned with the objective in the initial correspondence - improving the text of the legislation rather than changing it - it might (if the Prime Minister thought it desirable and the Lord Chancellor saw no objection) be worth his getting in touch with the people concerned in the Law Commission.

(b) Contents

15. Mr Rowland's latest correspondence suggests that Revenue caution on the details of new provisions stifles the Ministerial initiative underlying them. This is rather ironic since his first letter was sparked off by a press report he had seen of a letter the Financial Secretary had written to Mr Tim Smith MP in December 1982 on simplification, in which he had been at pains to emphasise that Ministers, not the Revenue, decided the detailed contents of tax legislation.

16. The provision he criticises - the same one as he has redrafted - illustrates this point very well. It contains the tax rules complementing the new "purchase of own shares" legislation. A consultative document ^{was} issued before the legislation and virtually everyone who responded to it agreed on the need for it to include effective safeguards to prevent accumulated profits simply being distributed tax free. In considering what these rules should be, the then Minister of State (Peter Rees) travelled to the United States to learn

at first hand how their rules worked. The rules he decided on, and which are incorporated in this legislation, were therefore drawn up with the benefit of practical experience over many years in the United States. They were designed to extend tax relief in the kind of situation where the purchase of own shares can be of real benefit to the trade of a small or unquoted company, but not to give relief in the kind of situation where the transaction is more in the nature of a distribution of accumulated profits, or dividend. Obviously, there can always be differences of view about the merits of particular aspects of such provisions (though the main provisions mentioned by Mr Rowland have direct parallels with the United states provisions), but Mr Rowland is entirely mistaken in suggesting that Ministers had not carefully considered the details of these provisions and, by implication, that they had given little thought to their impact on business taxpayers.

17. Finally, I should add that they are working well. The Revenue have received over 900 applications for clearance for purchase of own shares under the 1982 legislation, and has approved some 88 per cent of them, involving some £m90.

ROWLAND, DEBONO LIMITED

C.F.M.

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PMBR/pw

The Rt. Hon. Nicholas Ridley, M.P.,
Treasury Chambers,
Parliament Street,
London SW1P 3AG.

Dear Nicholas,

Teléx: 23143	
Cables: Monmachro	
REC.	- 5OCT1983
ACTION	Mr P LEWIS - IR
COPIES TO	SIR G ENGLE (PARL COUNSEL)
	Mr C JENKINS (LAW COMMISSION) 4 October, 1983
	PS IR

Our correspondence on the subject of simplifying the Tax Acts came to a fairly abrupt halt and in the normal way I would simply have abandoned the idea as impracticable.

I did not do this here because I was not convinced that it was so, while the subject-matter itself seemed sufficiently important to pursue despite the initial set-back. Instead, having been encouraged by comments of one or two whose views command respect, and the result of further work on the same lines, I am venturing to re-open the matter.

I reviewed the previous draft in the light of the points raised^{A1} - which did not of course affect questions of length or readability - but thought I ought to enlarge the sample by tackling a different passage as well. I decided upon Schedule 7 to the Finance Act 1977 because of its importance to the practitioner, coupled with its obscurity. I enclose my draft^{B2}, together with the original for comparison purposes, and again you will see a reduction in length of, to my mind, an astonishing 40% or so. I hope you will also agree that in spite of the retention of some obscurities - in view of the purpose of this exercise - the re-draft is much easier to understand.

Finally, I felt it would give a more balanced view if I worked on some "easier" provisions and I chose those dealing with personal allowances. I will not over-burden you with more paperwork unless you wish it but merely say that somewhat to my surprise I found that they were even more susceptible to clarification and general improvement by re-drafting.

The result of all this has been an appreciable up-grading in what I believe could be achieved coupled with the feeling that I should approach you again.

+ [Could you possibly find time for a short discussion, in particular of a proposal for evaluating the potential benefits and also the time and effort it would take. Briefly, the proposal is that there should be a short test run in conjunction with, say, two suitable Revenue officials; a couple of weeks should suffice.

Yours sincerely,

2.30 - Engle Sir G.
- Graham P
'some
Peter Lewis

Peter M.B. Rowland.

enclosures:

Section 53.

Purchase of own shares by unquoted trading company

- (1) A payment made on or after 6 April 1982 by an unquoted company which is either a trading company or the holding company of a trading group on the redemption, repayment or purchase of its shares shall not be a distribution for the purposes of the Corporation Tax Acts if the conditions set out in subsections (2) to (6) are satisfied or if subsection (7) applies.
- (2) The redemption, repayment or purchase (in subsections (3) to (6) of this section and Schedule 9 referred to as "the purchase") must be made wholly or mainly to benefit a trade carried on by the company or any of its 75 per cent subsidiaries and must not form part of a scheme or arrangement a main purpose of which is;
 - (a) to enable the owner of the shares (hereinafter and in Schedule 9 referred to as "the vendor") to enjoy the company's profits without receiving a dividend; or
 - (b) the avoidance of tax.
- (3) The vendor and, if the shares are held through a nominee, the nominee, must be resident and ordinarily resident in the United Kingdom in the year of assessment in which the purchase is made and for this purpose the residence and ordinary residence of personal representatives shall be those of the deceased at his death and in the case of trustees shall be determined by Section 52 of the Capital Gains Act 1979. The reference to ordinary residence shall be disregarded in the case of a company.
- (4) The vendor must have owned the shares throughout the five years ending with the purchase, but ownership by a spouse who transferred shares to the vendor when they were living together shall be treated as the vendor's unless at the time of the purchase she is alive and they are not living together.
- (5) Where the vendor acquired the shares under the will, on the intestacy, or as personal representative, of a deceased owner, the ownership of the deceased (and of his personal representatives if other than the vendor) shall be treated as that of the vendor, and the period shall be three years rather than five.
- (6) The purchase must substantially reduce the vendor's interest subject to and as provided by Schedule 9, and the identification and other supplementary provisions of that Schedule shall also have effect.
- (7) Such a payment as is referred to in subsection (1) shall not be treated as a distribution if, so far as it is not applied in paying capital gains tax charged on the redemption, payment or purchase, it is wholly or substantially applied within two years of a death in discharging the payee's liability to capital transfer tax charged on that death, but only to the extent that discharging it otherwise than by the redemption, repayment or purchase of shares

555

of a company falling within subsection (1) would have caused undue hardship.

SCHEDULE 9

Section 53. PURCHASE OF OWN SHARES BY UNQUOTED TRADING COMPANY

1. Shares which for capital gains tax purposes would be identified with earlier holdings under Chapter II of Part IV of the Capital Gains Tax Act 1979 (reorganisation of share capital, conversion of securities etc.), not being shares allotted for payment, or comprised in capital to which Section 34 of the Finance (No. 2) Act 1975 (stock dividends) applies, shall be so identified for the purposes of subsections (4) and (5). Subject thereto, shares acquired earlier shall be taken into account before shares acquired later and disposals shall be on a last in first out basis.

2.-(1) Subject to paragraph 8 below, where immediately after the purchase the vendor owns shares of the company the condition that his interest must be substantially reduced shall not be satisfied unless the percentages both of the nominal share capital which he owned, and of the profits available for distribution which he would have received on a full distribution, are lower by at least one quarter immediately after the purchase than they were immediately before.

(2). In determining the division of profits for the purposes of sub-paragraph (1) any person entitled to periodic distributions based on fixed rates or amounts shall be treated as receiving his maximum entitlement for a year.

(3) For the purposes of sub-paragraph (1), the "profits available for distribution" shall comprise £100 plus

(a) the profits available for distribution for the purposes of Part III of the Companies Act 1980, plus,

(b) the total of the amounts, if any, to which persons are entitled under (a) above

so however that in computing the profits available for distribution before the purchase there shall be substituted, if greater, the total amount payable by the company upon that and any contemporaneous purchase.

(4) References in this paragraph to entitlement are references to beneficial entitlement except in the case of trustees and personal representatives.

3. If immediately after the purchase any associate of the vendor owns shares of the company the combined interests of the vendor and his associates must subject to paragraph 8 below have been substantially reduced and the provisions of paragraph 2 shall be applied as though the vendor's interest included those of his associates.

1. In this Schedule -
 - (a) "Abroad" means outside the United Kingdom.
 - (b) "Day of absence" means a day of absence from the United Kingdom; a day at the end of which a person is in the United Kingdom is not such a day.
 - (c) "Qualifying period" means a period of days of which at least five-sixths are days of absence and in which there is no period of more than 62 consecutive days none of which is a day of absence.
 - (d) "Qualifying day" in relation to an employment means a day of absence which -
 - (i) is substantially devoted to the performance abroad of the duties of that, or of that and other, employments; or
 - (ii) is one of at least seven consecutive days on which the person is absent from the United Kingdom in order to perform such duties abroad and which (considered as a whole) are substantially devoted thereto; or
 - (iii) is one on which the person concerned is travelling in or for the purpose of performing such duties abroad.
 - (e) "Deductions" are deductions to be made in charging emoluments under Case I of Schedule E being emoluments which are net of capital allowances and the deductions mentioned in paragraph 5 of Schedule 2 to the Finance Act, 1974, and are eligible for relief under paragraph 5 below.
 - (f) "Employment" includes "office".

Long absences

2. Where in a year of assessment the duties of an employment are performed wholly or partly abroad in the course of a qualifying period of at least 365 days there shall be a 100% deduction from the emoluments attributable to such part of the period as falls within that year. Such emoluments include those for a period of leave immediately following the qualifying period but not so as to change the year of assessment to which emoluments relate.

Short or intermittent absences

3. Where in a year of assessment the duties of an employment are performed wholly or partly abroad and there are at least 30 qualifying days in that year, there shall be a 25% deduction from the emoluments attributable to such duties.

Foreign employments

4. Where in a year of assessment the duties of an employment with a person, body of persons or partnership resident outside, and not resident in, the United Kingdom are performed wholly abroad there shall be a 25% deduction from the emoluments from that employment.

Emoluments eligible for relief

5. (1) For the purposes of this paragraph, an employment is associated with another if they are with the same person or with persons associated with each other, and persons are associated if, applying Section 302 of the Taxes Act in the case of companies, and Section 534 in the case of an individual or partnership (whether or not in relation to a company), one controls the other or both are under the control of the same person or persons, so however that no individual is to be treated as under another's control.

(2) Where in a year of assessment the duties of an employment ("the relevant employment") or an associated employment are not performed wholly abroad the emoluments of the relevant employment eligible for relief under paragraph 2 shall not exceed such proportion of the emoluments from the relevant and any such associated employment as is reasonable having regard to the nature of and time devoted to the duties performed outside and in the United Kingdom respectively and to all other relevant circumstances.

(3) The emoluments eligible for relief under paragraphs 3 or 4 shall not exceed such proportion of the emoluments for the year from the relevant and any such associated employment as is reasonable applying the criteria set out in sub-paragraph (2) or, if higher, as equals the number of qualifying days in relation to the relevant employment in that year divided by the number of days in that year on which the relevant or an associated employment is held. For this purpose any day which is a qualifying day in relation to more than one employment shall count as a fraction of a day arrived at by dividing it equally between the different employments.

Supplementary

6. Duties performed on a vessel or aircraft engaged on a journey or on part of a journey which begins or ends outside the United Kingdom (but excluding any part of a journey beginning and ending in the United Kingdom) shall be treated as performed abroad and for this purpose any area designated under Section 1 (7) of the Continental Shelf Act 1964 shall be treated as part of the United Kingdom.

7. For the purposes of paragraph 2 if the duties of an employment in a year of assessment are in substance to be performed in the United Kingdom duties which are merely incidental to United Kingdom duties shall not be treated as performed abroad.

8. The provisions of Section 184 (2) of the Taxes Act relating to duties which are incidental to duties performed abroad shall not apply for the purposes of paragraphs 1, 2 or 3.

9. The same day may be taken into account for the purposes of paragraphs 1, 2 and 3 but only one deduction shall be allowed in respect of the same emoluments.

Long absences

1 (1) Where in any year of assessment -

(a) the duties of an employment are performed wholly or partly outside the United Kingdom; and

(b) any of those duties are performed in the course of a qualifying period which falls wholly or partly in that year and consists of at least 365 days,

then, in charging tax under Case I of Schedule E on the amount of the emoluments from that employment attributable to that period, or to so much of it as falls in that year of assessment, there shall be allowed a deduction equal to the whole of that amount.

(2) For the purposes of this paragraph a qualifying period is a period of consecutive days which either -

(a) consists entirely of days of absence from the United Kingdom; or

(b) consists partly of such days and partly of days included by virtue of sub-paragraph (3) below.

(3) Where, in the case of any person, a period consisting entirely of days of absence from the United Kingdom ("the relevant period") comes to an end and there have previously been one or more qualifying periods, the relevant period and the (or, if more than one, the last) qualifying period together with the intervening days between those periods shall be treated as a single qualifying period provided that -

(a) there are no more than 62 intervening days; and

(b) the number of days in the resulting period which are not days of absence from the United Kingdom does not exceed one-sixth of the total number of days in that period.

(4) For the purposes of sub-paragraph (1) above the emoluments from an employment attributable to a qualifying period include any emoluments from that employment for a period of leave immediately following that period but not so as to make any emoluments for one year of assessment emoluments for another.

(5) In relation to the year 1977-78 references in sub-paragraphs (1) and (4) above to a qualifying period include references to any period beginning before and ending after the commencement of that year which -

(a) is a continuous period of absence from the United Kingdom as defined in paragraph 2 of Schedule 2 to the Finance Act 1974; and

(b) so far as it falls after the commencement of that year, is (or is part of) a qualifying period as defined in sub-paragraph (2) above.

Shorter or intermittent absences

2 (1) Where in any year of assessment -

(a) the duties of an employment are performed wholly or partly outside the United Kingdom; and

(b) the number of days in that year which are qualifying days in relation to the employment (together with any which are qualifying days in relation to other employments) amounts to at least 30,

then, in charging tax under Case I of Schedule E on the amount of the emoluments from the employment attributable to duties performed outside the United Kingdom in that year, there shall be allowed a deduction equal to one-quarter of that amount.

(2) For the purposes of this paragraph a qualifying day in relation to an employment is a day of absence from the United Kingdom -

(a) which is substantially devoted to the performance outside the United Kingdom of the duties of that employment or of that and other employments; or

(b) which is one of at least seven consecutive days on which the person concerned is absent from the United Kingdom for the purpose of the performance of such duties outside the United Kingdom and which (taken as a whole) are substantially devoted to the performance of such duties as aforesaid; or

(c) on which the person concerned is travelling in or for the purpose of the performance of such duties outside the United Kingdom.

Foreign employments

3 Where in any year of assessment -

(a) the duties of an employment are performed wholly outside the United Kingdom; and

(b) the employment is with a person, body of persons or partnership resident outside, and not resident in, the United Kingdom,

then, in charging tax under Case I of Schedule E on the amount of the emoluments from the employment for that year, there shall be allowed a deduction equal to one-quarter of that amount.

Emoluments eligible for relief

4 (1) This paragraph has effect where a deduction falls to be allowed under the foregoing provisions of this Schedule in respect of the emoluments from an employment ("the relevant employment") for a year of assessment in which the duties of-

(a) the relevant employment; or

(b) any other employment or employments held by the person concerned which are associated with the relevant employment,

are not performed wholly outside the United Kingdom.

(2) The amount of the emoluments from the relevant employment in respect of which a deduction is allowed under paragraph 1 above for the year of assessment shall not exceed such proportion of the emoluments for that year from the relevant employment and the other employment or employments (if any) as is shown to be reasonable having regard to the nature of and time devoted to the duties performed outside and in the United Kingdom respectively and to all other relevant circumstances.

Earnings from Work done Abroad

(3) The amount of the emoluments from the relevant employment in respect of which a deduction is allowed under paragraph 2 or 3 above for the year of assessment shall not exceed -

- (a) the prescribed proportion of the emoluments for that year from the relevant employment and the other employment or employments (if any); or
- (b) such larger proportion of those emoluments as is shown to be reasonable having regard to the matters mentioned in sub-paragraph (2) above.

(4) In sub-paragraph (3) (a) above "the prescribed proportion" means the proportion which -

- (a) the number of days in the year of assessment which are shown to be qualifying days (as defined in paragraph 2(2) above) in relation to the relevant employment, bears to
- (b) 365, or if there is a part of the year of assessment in which he holds neither the relevant employment nor any employment associated with it, 365 less the number of days in that part;

and where a day is a qualifying day in relation both to the relevant employment and one or more other employments that day shall, for the purposes of paragraph (a) above, count in relation to the relevant employment as the fraction arrived at by dividing the day equally between the different employments.

(5) For the purposes of this paragraph an employment is associated with another if they are with the same person or with persons associated with each other and -

- (a) a company is associated with another company if one of them has control of the other within the meaning of section 302 of the Taxes Act or both of them are under the control within the meaning of that section of the same person or persons;
- (b) an individual or partnership is associated with another person (whether or not a company) if one of them has control of the other within the meaning of section 534 of that Act or both are under the control within the meaning of that section of the same person or persons;

but paragraph (b) above shall not be construed as requiring an individual to be treated in any circumstances as under the control of another person.

5 Paragraph 5 of Schedule 2 to the Finance Act 1974 (deductions from emoluments eligible for relief under that Schedule) shall apply also for the purposes of th

Supplementary

6 For the purposes of this Schedule a person shall not be regarded as absent from the United Kingdom on any day unless he is so absent at the end of it.

7 Notwithstanding section 184(3)(b) of the Taxes Act (duties performed on vessels and aircraft), there shall be treated for the purposes of this Schedule as performed outside the United Kingdom any duties which a person performs on a vessel or aircraft engaged on ;

(a) a voyage or journey beginning or ending outside the United Kingdom (but exclusive of any part of it which begins and ends in the United Kingdom); or

(b) any part beginning or ending outside the United Kingdom of a voyage or journey which begins and ends in the United Kingdom;

and for the purposes of this paragraph any area designated under section 1(7) of the Continental Shelf Act 1964 shall be treated as part of the United Kingdom.

8 Where an employment is in substance one the duties of which fall in the year of assessment to be performed in the United Kingdom, then, for the purposes of paragraph 1 above, there shall be treated as so performed any duties performed outside the United Kingdom the performance of which is merely incidental to the performance of the other duties in the United Kingdom.

9 Section 184(2) of the Taxes Act (performance in the United Kingdom of duties incidental to duties performed abroad) shall not be construed as affecting any question under paragraph 1 or 2 above where any duties are performed or whether a person is absent from the United Kingdom.

10. The same day may be taken into account for the purposes of both paragraphs 1 and 2 above but a deduction shall not be allowed in respect of the same emoluments under both those paragraphs or under either of them as well as paragraph 3 above..

11 In this Schedule references to an employment include references to an office.

file
Peter ROWLAND

7/10

DSG

29 September 1983

I wrote to you on 19 September about the correspondence between this Office, the Treasury and Mr. Peter Rowland. I now enclose some further papers which Mr. Rowland has copied to us. You may wish to consider whether the paper you are preparing for the Ministerial discussion of Mr. Rowlands' ideas needs amending in the light of these further papers.

W.F.S. RICKETT

Miss Judith Simpson,
H.M. Treasury.

DSG

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PMBR/pw

A.J. Gower-Isaac, Esq.,
The Board of Inland Revenue,
Somerset House
London W.C.2.

27 September, 1983

Dear *John,*

The Oxford seminar provided a bonus in giving me the opportunity of saying something about my efforts in regard to simplifying the Tax Acts.

I did not send off my draft of the passage I mentioned immediately since it does not come within your present field, and may not be wholly typical; besides it is rather a small sample by itself. I thought therefore it would be better to add another passage and I now enclose re-drafts not only of Section 53 of the Finance Act 1982 and paragraphs 1 - 4 of Schedule 9 (A 1), but also of Schedule 7 to the Finance Act 1977 (B 1), together, in each case, with the present text for comparison purposes (A 2 and B 2).

*no for an
with 4/12/83
M*

I picked on Schedule 7 because of its difficulty and importance. It is important for present purposes because of its interest to businessmen generally and because so many professionals in both the corporate and individual fields have to advise on it.

Its difficulty I know from long personal experience. By way of illustration, a limited aspect of it was recently referred to me by a group of three able tax advisers - all ex Revenue - who (and whose clients) had struggled many hours before deciding what it meant; I spent three hours in reaching a different conclusion. I do not think it worthwhile here to guess at the total economic loss resulting from such passages but it must be very large. I should add that since altering the context was not part of the present exercise my version still contains some of the original obscurities.

You will note that the re-drafts cut the length by 40% to 45% in both cases; consideration of other Sections suggests that reductions on something like this scale could be made throughout. I hope you will also agree that the re-drafts are very much clearer and easier to read.

However while brevity and clarity are worthwhile ends in themselves the content also needs review. I myself have little doubt that an appreciable number of complications could be excised and others re-formulated, to the general advantage without any overall loss of tax but it would be wrong to make specific suggestions without the benefit of the views of The Revenue.

Finally, I believe that the very desirable simplification of both types indicated above could be effected cheaply and quickly by following the somewhat unorthodox procedure I outlined.

continued...

For Mr Thatcher's personal attention

With Compliments

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28 SEP 1983

Mrs. [illegible]

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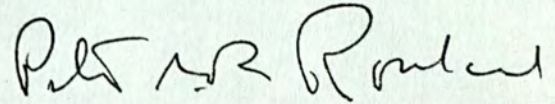
To: A.J. Gower-Isaac, Esq.

page ii

27 September, 1983

Could you please spare a few moments to give me your views, not on the minutiae of the re-drafts, but on my suggestion that there should be a short test run at an early date to judge the difficulties and possibilities of proceeding on the lines proposed. I know it is a tall order but it would obviously be an advantage if we could have a word before the P.M. returns.

Yours sincerely,



Peter M.B. Rowland

enclosures:

cc: The Prime Minister }
The Lord Cockfield } *less documents A1 + A2 forwarded previously*

1. In this Schedule -
 - (a) "Abroad" means outside the United Kingdom.
 - (b) "Day of absence" means a day of absence from the United Kingdom; a day at the end of which a person is in the United Kingdom is not such a day.
 - (c) "Qualifying period" means a period of days of which at least five-sixths are days of absence and in which there is no period of more than 62 consecutive days none of which is a day of absence.
 - (d) "Qualifying day" in relation to an employment means a day of absence which -
 - (i) is substantially devoted to the performance abroad of the duties of that, or of that and other, employments; or
 - (ii) is one of at least seven consecutive days on which the person is absent from the United Kingdom in order to perform such duties abroad and which (considered as a whole) are substantially devoted thereto; or
 - (iii) is one on which the person concerned is travelling in or for the purpose of performing such duties abroad.
 - (e) "Deductions" are deductions to be made in charging emoluments under Case I of Schedule E being emoluments which are net of capital allowances and the deductions mentioned in paragraph 5 of Schedule 2 to the Finance Act, 1974, and are eligible for relief under paragraph 5 below.
 - (f) "Employment" includes "office".

Long absences

2. Where in a year of assessment the duties of an employment are performed wholly or partly abroad in the course of a qualifying period of at least 365 days there shall be a 100% deduction from the emoluments attributable to such part of the period as falls within that year. Such emoluments include those for a period of leave immediately following the qualifying period but not so as to change the year of assessment to which emoluments relate.

Short or intermittent absences

3. Where in a year of assessment the duties of an employment are performed wholly or partly abroad and there are at least 30 qualifying days in that year, there shall be a 25% deduction from the emoluments attributable to such duties.

Foreign employments

4. Where in a year of assessment the duties of an employment with a person, body of persons or partnership resident outside, and not resident in, the United Kingdom are performed wholly abroad there shall be a 25% deduction from the emoluments from that employment.

Emoluments eligible for relief

5. (1) For the purposes of this paragraph, an employment is associated with another if they are with the same person or with persons associated with each other, and persons are associated if, applying Section 302 of the Taxes Act in the case of companies, and Section 534 in the case of an individual or partnership (whether or not in relation to a company), one controls the other or both are under the control of the same person or persons, so however that no individual is to be treated as under another's control.

(2) Where in a year of assessment the duties of an employment ("the relevant employment") or an associated employment are not performed wholly abroad the emoluments of the relevant employment eligible for relief under paragraph 2 shall not exceed such proportion of the emoluments from the relevant and any such associated employment as is reasonable having regard to the nature of and time devoted to the duties performed outside and in the United Kingdom respectively and to all other relevant circumstances.

(3) The emoluments eligible for relief under paragraphs 3 or 4 shall not exceed such proportion of the emoluments for the year from the relevant and any such associated employment as is reasonable applying the criteria set out in sub-paragraph (2) or, if higher, as equals the number of qualifying days in relation to the relevant employment in that year divided by the number of days in that year on which the relevant or an associated employment is held. For this purpose any day which is a qualifying day in relation to more than one employment shall count as a fraction of a day arrived at by dividing it equally between the different employments.

Supplementary

6. Duties performed on a vessel or aircraft engaged on a journey or on part of a journey which begins or ends outside the United Kingdom (but excluding any part of a journey beginning and ending in the United Kingdom) shall be treated as performed abroad and for this purpose any area designated under Section 1 (7) of the Continental Shelf Act 1964 shall be treated as part of the United Kingdom.

7. For the purposes of paragraph 2 if the duties of an employment in a year of assessment are in substance to be performed in the United Kingdom duties which are merely incidental to United Kingdom duties shall not be treated as performed abroad.

8. The provisions of Section 184 (2) of the Taxes Act relating to duties which are incidental to duties performed abroad shall not apply for the purposes of paragraphs 1, 2 or 3.

9. The same day may be taken into account for the purposes of paragraphs 1, 2 and 3 but only one deduction shall be allowed in respect of the same emoluments.

Long absences

1 (1) Where in any year of assessment -

(a) the duties of an employment are performed wholly or partly outside the United Kingdom; and

(b) any of those duties are performed in the course of a qualifying period which falls wholly or partly in that year and consists of at least 365 days,

then, in charging tax under Case I of Schedule E on the amount of the emoluments from that employment attributable to that period, or to so much of it as falls in that year of assessment, there shall be allowed a deduction equal to the whole of that amount.

(2) For the purposes of this paragraph a qualifying period is a period of consecutive days which either -

(a) consists entirely of days of absence from the United Kingdom; or

(b) consists partly of such days and partly of days included by virtue of sub-paragraph (3) below.

(3) Where, in the case of any person, a period consisting entirely of days of absence from the United Kingdom ("the relevant period") comes to an end and there have previously been one or more qualifying periods, the relevant period and the (or, if more than one, the last) qualifying period together with the intervening days between those periods shall be treated as a single qualifying period provided that -

(a) there are no more than 62 intervening days; and

(b) the number of days in the resulting period which are not days of absence from the United Kingdom does not exceed one-sixth of the total number of days in that period.

(4) For the purposes of sub-paragraph (1) above the emoluments from an employment attributable to a qualifying period include any emoluments from that employment for a period of leave immediately following that period but not so as to make any emoluments for one year of assessment emoluments for another.

(5) In relation to the year 1977-78 references in sub-paragraphs (1) and (4) above to a qualifying period include references to any period beginning before and ending after the commencement of that year which -

(a) is a continuous period of absence from the United Kingdom as defined in paragraph 2 of Schedule 2 to the Finance Act 1974; and

(b) so far as it falls after the commencement of that year, is (or is part of) a qualifying period as defined in sub-paragraph (2) above.

Shorter or intermittent absences

- 2 (1) Where in any year of assessment -
- (a) the duties of an employment are performed wholly or partly outside the United Kingdom; and
 - (b) the number of days in that year which are qualifying days in relation to the employment (together with any which are qualifying days in relation to other employments) amounts to at least 30,

then, in charging tax under Case I of Schedule E on the amount of the emoluments from the employment attributable to duties performed outside the United Kingdom in that year, there shall be allowed a deduction equal to one-quarter of that amount.

- (2) For the purposes of this paragraph a qualifying day in relation to an employment is a day of absence from the United Kingdom -
- (a) which is substantially devoted to the performance outside the United Kingdom of the duties of that employment or of that and other employments; or
 - (b) which is one of at least seven consecutive days on which the person concerned is absent from the United Kingdom for the purpose of the performance of such duties outside the United Kingdom and which (taken as a whole) are substantially devoted to the performance of such duties as aforesaid; or
 - (c) on which the person concerned is travelling in or for the purpose of the performance of such duties outside the United Kingdom.

Foreign employments

- 3 Where in any year of assessment -
- (a) the duties of an employment are performed wholly outside the United Kingdom; and
 - (b) the employment is with a person, body of persons or partnership resident outside, and not resident in, the United Kingdom,

then, in charging tax under Case I of Schedule E on the amount of the emoluments from the employment for that year, there shall be allowed a deduction equal to one-quarter of that amount.

Emoluments eligible for relief

- 4 (1) This paragraph has effect where a deduction falls to be allowed under the foregoing provisions of this Schedule in respect of the emoluments from an employment ("the relevant employment") for a year of assessment in which the duties of-

- (a) the relevant employment; or
- (b) any other employment or employments held by the person concerned which are associated with the relevant employment,

are not performed wholly outside the United Kingdom.

(2) The amount of the emoluments from the relevant employment in respect of which a deduction is allowed under paragraph 1 above for the year of assessment shall not exceed such proportion of the emoluments for that year from the relevant employment and the other employment or employments (if any) as is shown to be reasonable having regard to the nature of and time devoted to the duties performed outside and in the United Kingdom respectively and to all other relevant circumstances.

Earnings from Work done Abroad

(3) The amount of the emoluments from the relevant employment in respect of which a deduction is allowed under paragraph 2 or 3 above for the year of assessment shall not exceed -

- (a) the prescribed proportion of the emoluments for that year from the relevant employment and the other employment or employments (if any); or
- (b) such larger proportion of those emoluments as is shown to be reasonable having regard to the matters mentioned in sub-paragraph (2) above.

(4) In sub-paragraph (3) (a) above "the prescribed proportion" means the proportion which -

- (a) the number of days in the year of assessment which are shown to be qualifying days (as defined in paragraph 2(2) above) in relation to the relevant employment, bears to
- (b) 365, or if there is a part of the year of assessment in which he holds neither the relevant employment nor any employment associated with it, 365 less the number of days in that part;

and where a day is a qualifying day in relation both to the relevant employment and one or more other employments that day shall, for the purposes of paragraph (a) above, count in relation to the relevant employment as the fraction arrived at by dividing the day equally between the different employments.

(5) For the purposes of this paragraph an employment is associated with another if they are with the same person or with persons associated with each other and -

- (a) a company is associated with another company if one of them has control of the other within the meaning of section 302 of the Taxes Act or both of them are under the control within the meaning of that section of the same person or persons;
- (b) an individual or partnership is associated with another person (whether or not a company) if one of them has control of the other within the meaning of section 534 of that Act or both are under the control within the meaning of that section of the same person or persons;

but paragraph (b) above shall not be construed as requiring an individual to be treated in any circumstances as under the control of another person.

5 Paragraph 5 of Schedule 2 to the Finance Act 1974 (deductions from emoluments eligible for relief under that Schedule) shall apply also for the purposes of this Schedule.

Supplementary

6 For the purposes of this Schedule a person shall not be regarded as absent from the United Kingdom on any day unless he is so absent at the end of it.

7 Notwithstanding section 184(3)(b) of the Taxes Act (duties performed on vessels and aircraft), there shall be treated for the purposes of this Schedule as performed outside the United Kingdom any duties which a person performs on a vessel or aircraft engaged on ;

(a) a voyage or journey beginning or ending outside the United Kingdom (but exclusive of any part of it which begins and ends in the United Kingdom); or

(b) any part beginning or ending outside the United Kingdom of a voyage or journey which begins and ends in the United Kingdom;

and for the purposes of this paragraph any area designated under section 1(7) of the Continental Shelf Act 1964 shall be treated as part of the United Kingdom.

8 Where an employment is in substance one the duties of which fall in the year of assessment to be performed in the United Kingdom, then, for the purposes of paragraph 1 above, there shall be treated as so performed any duties performed outside the United Kingdom the performance of which is merely incidental to the performance of the other duties in the United Kingdom.

9 Section 184(2) of the Taxes Act (performance in the United Kingdom of duties incidental to duties performed abroad) shall not be construed as affecting any question under paragraph 1 or 2 above where any duties are performed or whether a person is absent from the United Kingdom.

10. The same day may be taken into account for the purposes of both paragraphs 1 and 2 above but a deduction shall not be allowed in respect of the same emoluments under both those paragraphs or under either of them as well as paragraph 3 above.

11 In this Schedule references to an employment include references to an office.

Peter ROWLAND



30/9 NC

10 DOWNING STREET

From the Private Secretary

19 September 1983

On 8 September, Tim Flesher wrote to you about the correspondence between this office, the Treasury and Mr. Peter Rowland. You will recall that the Prime Minister wrote to Mr. Rowland on 9 September telling him that she would be taking up his ideas with Ministers and officials. I understand that you will be letting us have a note by the end of this month as a basis for discussion.

I now enclose a further letter to the Prime Minister from Mr. Rowland which you will wish to take into account in preparing your paper. I have acknowledged Mr. Rowland's letter.

WR

Miss Judith Simpson
H.M. Treasury.

tu



V

10 DOWNING STREET

From the Private Secretary

19 September 1983

In the Prime Minister's absence abroad, I am writing on her behalf to thank you for your letter of 16 September. I know she will read this with interest on her return, and that it will be useful background for the meeting she will be having with Ministers and officials.

WR

P.M.B. Rowland, Esq.

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PMBR/pw

The Rt. Hon. Margaret Thatcher,
10 Downing Street,
London S.W.1.

16 September, 1983

Dear *Margaret,*

Very many thanks for the letter you wrote to me from Chequers which I have followed up with a short note to Lord Cockfield.

I am anxious not to over-burden you on the subject but think the attached memorandum may be useful for your files as the passage concerned is such a good illustration of how an excess of Revenue caution can stifle the good intentions of Ministers.

Yours

Peter


Peter M.B. Rowland

Simplification of Finance Act 1982 Section 53 and Schedule 9

Broadly speaking, for the provisions to apply, the company must be unquoted and a trading company (or the holding company of a trading group), and the "purchase" must have been wholly or mainly for the benefit of the trade in question. The taxpayer must be resident and ordinarily resident and have held the shares for five years, and must show that, although participation in the company's profits without receipt of a dividend will normally follow, this was not one of the main purposes of the transaction. Finally, it must be shown that tax avoidance was not a main purpose either.

It might well be thought that these stringent conditions provide ample protection against abuse. However, if for some reason it is also essential that the taxpayer's interest should be substantially reduced it should not take some four pages of highly complicated gobbledegook to say so. Indeed, if the supposed mischief could actually be identified I have no doubt that some very much shorter way of dealing with it could be devised.

There are other seemingly otiose complications; to take just one example, if, where shares derive from a spouse, one may take the spouse's period of ownership into account, is it really necessary that the spouses should have been living together when the transfer took place, or indeed at the time of the purchase? Again, provided the other conditions are met I wonder if the provisions need to be confined to residents; after all, a substantial holding in the hands of a foreign legatee could be particularly tiresome.


Peter M.B. Rowland

PMBR/pw

The Rt. Hon. The Lord Cockfield,
Cabinet Office,
70 Whitehall,
London S.W.1.

16 September, 1983

Dear

Simplification of the Taxing Acts.

It was very good of you to give me so much time when I came to see you the other day. I duly reported to the P.M.

I wonder whether you think that one suggestion I made to her would help with the procedural difficulties, namely, that before any decisions are made there should be a short, unpublicised trial run in which a lawyer from the Revenue with good drafting experience together with an official qualified to pronounce on policy matters - both picked for their enthusiasm and constructive outlook - would work with me for a couple of weeks to see what could be achieved.

I may add that in the last few days I have mentioned in confidence what I am proposing to one or two friends whose opinions are of value and have received 100% approbation. I shall take the opportunity of approaching one or two more at an I.F.S. seminar early this coming week.

May I approach you again later on?

With many thanks for your help.

Yours sincerely,

Peter M.B. Rowland

Peter ROWLAND

Bu 30/9

GR/M see my note
of according to
mes 14/9

MICHAEL

Please see Tim's letter to HMT of 8 September requesting a draft reply for PM to send to Mr. Peter Rowland and the PM's subsequent manuscript letter of 9 September to Mr. Rowland, from which it would seem that she will not be replying to him until after she has had a meeting with Ministers.

Treasury are enquiring what is actually expected from them at this stage. They assume that they need not now provide a draft reply, as requested by Tim, but should let you have the explanatory background note he requested for consideration here, before fixing the meeting with Ministers. Do you agree?

Kay

14.9.83.

Tsy (Martha Donnelly) will
let us have a ps letter + paper by
end Sept. We shall ^{then} fix a mtg, after
which there will be a draft reply for PM
to send to Mr Rowland, mes 14/9

Peter ROWLAND

file 22/19
CANTY

CHEQUERS
BUTLER'S CROSS · AYLESBURY
BUCKS

9th September 1963

Dear Peter,

Thank you for your letter. I
am so glad you went to see
Arthur Goddard. He knows the subject
from every angle.

Please give us a little time for
your points to be properly and
seriously considered. I will then
have a meeting with Minister and
Minister and be in touch with you again
Yours ever
Raymond KB



22/9

Peter ROWLAND,

10 DOWNING STREET

From the Private Secretary

8 September 1983

You will recall that we discussed correspondence between this office, the Treasury and Mr. Peter Rowland some time ago. Following his meeting with the Prime Minister Mr. Rowland has now sent the attached letter following up his earlier correspondence with your Department. I should be grateful if you could let us have a draft reply for the Prime Minister to send to Mr. Rowland to reach us by Thursday 22 September. No doubt you will also include an explanatory note on the background to Mr. Rowland's suggestion and the reasons why your Department have found it unacceptable.

TIM FLESHER

Miss Judith Simpson
HM Treasury.

MJ

8 September 1983

I am writing on behalf of the Prime Minister to thank you for your letter of 7 September and enclosures.

These are receiving attention and a reply will be sent to you as soon as possible.

TIM FLESHER

P.M.B. Rowland, Esq.



10 DOWNING STREET

PRIME MINISTER

Attached is the promised
note from Peter Rowland. I have
commissioned an urgent note from
the Treasury on the details of
what he proposes.

8 September 1983

We shall need to
have a meeting with
the Treasury, & Lord
Geddes on 10-11
the note has been considered
urgently. Say in
1 month from now?

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PMBR/pw

The Rt. Hon. Mrs. Margaret Thatcher, M.P.
10 Downing Street,
London S.W.1.

7 September, 1983

Dear *Margaret,*

In accordance with your request the other day, I attach a summary of the objectives, now numbering six, together with an illustration of what could be achieved merely by re-writing the present law. N.B. The re-draft is approximately 40% shorter than the original even though it leaves nothing out.

The next step needed is simplification of the contents by pruning avoidable complications and finding neater ways to express those which must be retained. This would certainly result in further substantial savings of space as well as greater clarity but I am not enclosing my detailed suggestions pending knowing the Revenue's views.

All in all, I have no doubt at all that the present ever-expanding jungle of tax provisions could be reduced to a compact and much more comprehensible code. The advantages of doing so would be hard to exaggerate. By way of illustration, in one current case it seems that a badly-drafted phrase has already wasted some 247 hours, 14 of them by senior executives, and it has not got as far as Counsel yet, let alone to appeal. Quaere: the amount of time the I.R., and other companies and their advisers, have spent on the point.

The final question is what can be done. I took your hint and went to see Lord Cockfield who was very kind and helpful, pointing out the difficulties which arise from the way the Civil Service is structured but not ruling the proposition out.

On reflection, I think the best way forward would be a short and unpublicised trial run. If a lawyer from the Revenue with good drafting experience together with an official qualified to pronounce on policy matters - both picked for their enthusiasm and constructive outlook! - were to work with me for a couple of weeks or so there would be a sound basis for final decisions on all aspects. However, the only chance of the Revenue ever agreeing would be if you were to take up the cudgels yourself.

Please let me know what happens or I can supply any information or do anything else to help the proposition along. I would of course make myself available at any time.

I am gathering more information on the other matters I mentioned.

It was a great pleasure to see you again and very good of you to spare so much time.

enclosure:

Your ever
PMBR

Peter M.B. Rowland

Paris address of Mr. Rowland: Bodington & Yturbe, 9 Rue d'Anjou, Paris 75008 Tel: 2651304 Telex: 660853
Reg. London Office as above, No. 1059657

Objects

The immediate objects are:-

1. To shorten the Acts and clarify their wording.
2. To simplify the contents by cutting out provisions of little practical importance.
3. To eliminate anomalies and ambiguities so far as may be.
4. To reduce the need for and number of extra-statutory concessions.
5. To override undesirable Court decisions.
6. To consolidate the relevant Acts.

The ultimate objects are to reduce the time management now has to devote to taxation and to enable the energies of many accountants and others to be channelled into more productive fields.

My version

Section 53. Purchase of own shares by unquoted trading company

(1) A payment made on or after 6 April 1982 by an unquoted company which is either a trading company or the holding company of a trading group on the redemption, repayment or purchase of its shares shall not be a distribution for the purposes of the Corporation Tax Acts if the conditions set out in subsections (2) to (6) are satisfied or if subsection (7) applies.

(2) The redemption, repayment or purchase (in subsections (3) to (6) of this section and Schedule 9 referred to as "the purchase") must be made wholly or mainly to benefit a trade carried on by the company or any of its 75 per cent subsidiaries and must not form part of a scheme or arrangement a main purpose of which is;

- (a) to enable the owner of the shares (hereinafter and in Schedule 9 referred to as "the vendor") to enjoy the company's profits without receiving a dividend; or
- (b) the avoidance of tax.

(3) The vendor and, if the shares are held through a nominee, the nominee, must be resident and ordinarily resident in the United Kingdom in the year of assessment in which the purchase is made and for this purpose the residence and ordinary residence of personal representatives shall be those of the deceased at his death and in the case of trustees shall be determined by Section 52 of the Capital Gains Act 1979. The reference to ordinary residence shall be disregarded in the case of a company.

(4) The vendor must have owned the shares throughout the five years ending with the purchase, but ownership by a spouse who transferred shares to the vendor when they were living together shall be treated as the vendor's unless at the time of the purchase she is alive and they are not living together.

(5) Where the vendor acquired the shares under the will, on the intestacy, or as personal representative, of a deceased owner, the ownership of the deceased (and of his personal representatives if other than the vendor) shall be treated as that of the vendor, and the period shall be three years rather than five.

(6) The purchase must substantially reduce the vendor's interest subject to and as provided by Schedule 9, and the identification and other supplementary provisions of that Schedule shall also have effect.

(7) Such a payment as is referred to in subsection (1) shall not be treated as a distribution if, so far as it is not applied in paying capital gains tax charged on the redemption, ^{re}payment or purchase, it is wholly or substantially applied within two years of a death in discharging the payee's liability to capital transfer tax charged on that death, but only to the extent that discharging it otherwise than by the redemption, repayment or purchase of shares

of a company falling within subsection (1) would have caused undue hardship.

SCHEDULE 9

Section 53. PURCHASE OF OWN SHARES BY UNQUOTED TRADING COMPANY

1. Shares which for capital gains tax purposes would be identified with earlier holdings under Chapter II of Part IV of the Capital Gains Tax Act 1979 (reorganisation of share capital, conversion of securities etc.), not being shares allotted for payment, or comprised in capital to which Section 34 of the Finance (No. 2) Act 1975 (stock dividends) applies, shall be so identified for the purposes of subsections (4) and (5). Subject thereto, shares acquired earlier shall be taken into account before shares acquired later and disposals shall be on a last in first out basis.

2.-(1) Subject to paragraph 8 below, where immediately after the purchase the vendor owns shares of the company the condition that his interest must be substantially reduced shall not be satisfied unless the percentages both of the nominal share capital which he owned, and of the profits available for distribution which he would have received on a full distribution, are lower by at least one quarter immediately after the purchase than they were immediately before.

(2). In determining the division of profits for the purposes of sub-paragraph (1) any person entitled to periodic distributions based on fixed rates or amounts shall be treated as receiving his maximum entitlement for a year.

(3) For the purposes of sub-paragraph (1) the "profits available for distribution" shall comprise £100 plus

(a) the profits available for distribution for the purposes of Part III of the Companies Act 1980, plus,

(b) the total of the amounts, if any, to which persons are entitled under (a) above

so however that in computing the profits available for distribution before the purchase there shall be substituted, if greater, the total amount payable by the company upon that and any contemporaneous purchase.

(4) References in this paragraph to entitlement are references to beneficial entitlement except in the case of trustees and personal representatives.

3. If immediately after the purchase any associate of the vendor owns shares of the company the combined interests of the vendor and his associates must subject to paragraph 8 below have been substantially reduced and the provisions of paragraph 2 shall be applied as though the vendor's interest included those of his associates.

53. Purchase of own shares by unquoted trading company

(1) References in the Corporation Tax Acts to distributions of a company shall not include references to a payment made by a company on the redemption, repayment or purchase of its own shares if -

- (a) the company is an unquoted company and either a trading company or the holding company of a trading group; and
- (b) the redemption, repayment or purchase is made wholly or mainly for the purpose of benefiting a trade carried on by the company or by any of its 75 per cent. subsidiaries, and does not form part of a scheme or arrangement the main purpose or one of the main purposes of which is -
 - (i) to enable the owner of the shares to participate in the profits of the company without receiving a dividend, or
 - (ii) the avoidance of tax; and
- (c) the conditions in paragraphs 1 to 9 of Schedule 9 to this Act, so far as applicable, are satisfied in relation to the owner of the shares.

(2) References in the Corporation Tax Acts to distributions of a company shall not include references to a payment made by a company on the redemption, repayment or purchase of its own shares if -

- (a) the company is within subsection (1) (a) above, and
- (b) the whole or substantially the whole of the payment (apart from any sum applied in paying capital gains tax charged on the redemption, repayment or purchase) is applied by the person to whom it is made in discharging a liability of his for capital transfer tax charged on a death, and is so applied within the period of two years after the death;

but this subsection shall not apply to the extent that the liability could without undue hardship have been discharged otherwise than through the redemption, repayment or purchase of shares in the company or another company within subsection (1) (a) above.

(3) Schedule 9 to this Act shall have effect for supplementing this section; and in that Schedule "the purchase" means the redemption, repayment or purchase referred to in subsection (1) above, and "the vendor" means the owner of the shares at the time it is made.

(4) This section has effect in relation to payments made on or after 6th April 1982.

SCHEDULE 9

Section 53

PURCHASE OF OWN SHARES BY UNQUOTED TRADING COMPANY

Conditions for application of section 53 (1)

1.-(1) The vendor must be resident and ordinarily resident in the United Kingdom in the year of assessment in which the purchase is made and if the shares are held through a nominee the nominee must also be so resident and ordinarily resident.

(2) The residence and ordinary residence of trustees shall be determined for the purposes of this paragraph as they are determined under Section 52 of the Capital Gains Tax Act 1979 for the purposes of that Act.

(3) The residence and ordinary residence of personal representatives shall be taken for the purposes of this paragraph to be the same as the residence and ordinary residence of the deceased immediately before his death.

(4) The references in this paragraph to a person's ordinary residence shall be disregarded in the case of a company.

2.-(1) The shares must have been owned by the vendor throughout the period of five years ending with the date of the purchase.

(2) If at any time during that period the shares were transferred to the vendor by a person who was then his spouse living with him then, unless that person is alive at the date of the purchase but is no longer the vendor's spouse living with him, any period during which the shares were owned by that person shall be treated for the purposes of sub-paragraph (1) above as a period of ownership by the vendor.

(3) Where the vendor became entitled to the shares under the will or on the intestacy of a previous owner -

(a) any period during which the shares were owned by the previous owner or his personal representatives shall be treated for the purposes of sub-paragraph (1) above as a period of ownership by the vendor, and

(b) that sub-paragraph shall have effect as if it referred to three years instead of five.

(4) Where the vendor is a personal representative of a deceased owner -

(a) any period during which the shares were owned by the deceased shall be treated for the purposes of sub-paragraph (1) above as a period of ownership by the vendor, and

(b) that sub-paragraph shall have effect as if it referred to three years instead of five.

(5) In determining whether the condition in this paragraph is satisfied in a case where the vendor acquired shares of the same class at different times -

- (a) shares acquired earlier shall be taken into account before shares acquired later, and
- (b) any previous disposal by him of shares of that class shall be assumed to be a disposal of shares acquired later rather than of shares acquired earlier.

(6) If for the purposes of capital gains tax the time when shares were acquired would be determined under any provision of Chapter II of Part IV of the Capital Gains Tax Act 1979 (reorganisation of share capital, conversion of securities etc.) then subject to sub-paragraph (7) below, it shall be determined in the same way for the purposes of this paragraph.

(7) Sub-paragraph (6) above shall not apply to shares allotted for payment or comprised in share capital to which section 34 of the Finance (No 2) Act 1975 (stock dividends) applies.

3.-(1) If immediately after the purchase the vendor owns shares of the company, then, subject to paragraph 9 below, his interest as a shareholder must be substantially reduced.

(2) Subject to sub-paragraph (3) below the vendor's interest as a shareholder shall be taken to be substantially reduced if and only if the total nominal value of the shares owned by him immediately after the purchase, expressed as a fraction of the issued share capital of the company at that time, does not exceed 75 per cent. of the corresponding fraction immediately before the purchase.

(3) The vendor's interest as a shareholder shall not be taken to be substantially reduced where -

- (a) he would, if the company distributed all its profits available for distribution immediately after the purchase, be entitled to a share of those profits, and
- (b) that share, expressed as a fraction of the total of those profits, exceeds 75 per cent. of the corresponding fraction immediately before the purchase.

(4) In determining for the purposes of sub-paragraph (3) above the division of profits among the persons entitled to them, a person entitled to periodic distribution calculated by reference to fixed rates or amounts shall be regarded as entitled to a distribution of the amount or maximum amount to which he would be entitled for a year.

(5) In sub-paragraph (3) above "profits available for distribution" has the same meaning as it has for the purposes of Part III of the Companies

Act 1980, but subject to sub-paragraph (6) below.

(6) For the purposes of sub-paragraph (3) above the amount of the profits available for distribution (whether immediately before or immediately after the purchase) shall be treated as increased -

(a) in the case of every company, by £100, and

(b) in the case of a company from which any person is entitled to periodic distributions of the kind mentioned in sub-paragraph (4) above, by a further amount equal to that required to make the distribution to which he is entitled in accordance with that sub-paragraph;

and where the aggregate of the sums payable by the company on the purchase and on any contemporaneous redemption, repayment or purchase of other shares of the company exceeds the amount of the profits available for distribution immediately before the purchase, that amount shall be treated as further increased by an amount equal to the excess.

(7) References in this paragraph to entitlement are, except in the case of trustees and personal representatives, references to beneficial entitlement.

I have much admiration for what the draftsmen achieve but nevertheless think that present methods could be improved.

To illustrate what is possible I have made a redraft of section 53 of the Finance Act 1982 together with the first four paragraphs of Schedule 9. It will be seen that there is a saving of some 40%, which would be greater if the content were to be simplified as well.

The re-draft is based on the following;-

- (i) inserting main principles in the section and only relegating matters of detail and administration to the Schedule - see the new sub-sections (3) to (6), important matters previously lost in Schedule 9.
- (ii) Avoiding the unnecessary repetition of words and phrases. Compare for instance the new sub-section (3) and the corresponding phrases in the Schedule both marked with large capital A.
- (iii) Replacing pedestrian phrases by shorter or neater ones where available - see the passages respectively marked with a Capital B.
- (iv) Re-arranging the subject matter wherever necessary to achieve the foregoing important re-arrangement appears in the re-draft, the convoluted provisions of sub-paragraphs 3 (2) - (6) of Schedule 9 having been particularly difficult to deal with.

PRIME MINISTER

Rowland

file

Attached is the correspondence between Mr. Rowland and Nicholas Ridley. As you will see from Mr. Ridley's letter of 7 June, the Treasury seem to have adopted a rather dismissive tone with Mr. Rowland, and I am not surprised that he was a little put out. I have told Mr. Ridley's office that the phrasing of the letter of 7 June was rather unfortunate, to say the least. We now await Mr. Rowland's later letter.

We will later pick
up again when his
letter arrives.

✓
Please look out for it!
NB
ms.

26 August, 1983.

ROWLAND, DEBONO LIMITED

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10th June, 1983.

PRIVATE & CONFIDENTIAL

The Rt.Hon.Nicholas Ridley, M.P.,
The House of Commons,
Westminster, S.W.1.

Dear *Nicholas*,

Many thanks for your letter of the 7th June, and for mentioning the London & Northern Group matter to the Revenue.

I am sorry if you felt aggrieved at my writing to the P.M. but it seemed we had come to a complete dead end, and I considered the matter of sufficient importance not simply to abandon it. In any case I would probably not have done so except that, as you may or may not know, I was her pupil/master when she was in Revenue Chambers (rather appropriately) and we do keep in touch occasionally.

I am still puzzled why there is so much resistance to the suggestion in the Department. My immediate reaction to being told that something desirable is impracticable is to find a way of doing it, but no doubt you are much too busy to discuss the matter further. I shall therefore reluctantly treat the matter as closed so far as you are concerned, unless I hear to the contrary.

In the meantime, many congratulations on the election and very best wishes for the next Parliament.

With many thanks,

Yours
PS

FINANCIAL SECRETARY	
REC.	13 JUN 1983
ACTED	Mr KUCZYNSKI
COPIES TO	Mr ENGLE (P. Counsel)
	PS/JR



Treasury Chambers, Parliament Street, SW1P 3AG

Peter Rowland Esq

7 June 1983

Dear Mr Rowland,

Thank you for your letter of 19 May setting out the position of London & Northern Group PLC. I have asked the Inland Revenue to review their actions in this case, and, if appropriate, to discuss the matter with the Company.

It is not clear from your letter whether or not you act as an agent for the Company so for reasons of confidentiality I shall be unable to notify you of the outcome, but no doubt you will be kept informed by the Company.

No
The Prime Minister has asked me to reply to your letter of 10 May on simplification of tax legislation. I do appreciate the strength of your feeling on this issue, but I was disappointed that you felt it right to appeal over my head to her. We are in full agreement on the need to keep legislation on taxation as simple as possible. The real issue is the practicality of your suggestions, and I am afraid there is nothing I can usefully add to the points made in my letters of 31 March and 4 May.

yours sincerely

Martin Donnelly

pp NICHOLAS RIDLEY

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PMBR/pw

The Rt. Hon. Margaret Thatcher, M.P.
10 Downing Street,
London S.W.1.

10 May, 1983

Dear Margaret,

Our tax legislation is criticised on all sides for its obscurity and the standard Revenue reply is that nothing can be done.

I have never believed this true, so when Nicholas Ridley repeated the official line a few months ago, I decided to write to him. He asked for illustrations and I re-drafted a passage taken at random from the F.A. 1982.

I enclose my version together with the original for comparison purposes and you will see that the former reads like an Act and uses the same words and expressions but takes up only 2 pages instead of 3½ though nothing has been left out. I believe it to be easier to read as well as shorter, and it could be clearer still with a few changes to the content. I may add that the Acts abound with possibilities for simplification without appreciable prejudice to the taxpayer or the Revenue.

The outcome was predictable - quite negative. The reasons given were the risk of mistakes, lack of Parliamentary time, and doubt whether a different drafting technique would help. There is nothing in the first point since errors would scarcely elude four trained pairs of eyes (half to be produced by the Revenue). Loss of Parliamentary time should be negligible; there are various possibilities such as a small all-Party group of experts to black ball anything controversial. I think the enclosed draft answers the third point.

What I find unclear is why the Revenue is so much against clarification. Vested interests? Amour-propre? A dislike of eating their own words? Whatever it may be, you alone have the authority to test the issue if you wish to by calling on them to cooperate with a tiny Committee to produce a rather larger sample which I think should be the next stage. This need only take a couple of weeks, given goodwill. The whole job would take about a year.

Certainly such a move would be highly popular in the City and the business community generally; and the long term benefits would be hard to exaggerate - a great saving of managerial time and the redeployment into more productive fields of perhaps 5,000 of the ablest accountants and other professionals.

P.S. Now that the date has been announced it is presumably too late to do anything but Nicholas will tell you that it is nearly three months since I broached the subject and I have been trying to push it along ever since! *hon and the very, very best of luck for the 9th from Glen & myself.*

Section 53. Purchase of own shares by unquoted trading company

(1) A payment made on or after 6th April 1982 by an unquoted company which is either a trading company or the holding company of a trading group on the redemption, repayment or purchase of its shares (in this Section and Schedule 9 referred to as "the purchase") shall not be a distribution for the purposes of the Corporation Tax Acts provided that either the conditions set out in sub-sections (2) to (6) are satisfied or sub-section (7) applies.

(2) The purchase must be made wholly or mainly to benefit a trade carried on by the company or any of its 75 per cent subsidiaries and must not form part of a scheme or arrangement a main purpose of which is -

- (a) to enable the owner of the shares (in this Section and Schedule 9 referred to as "the vendor") to enjoy the company's profits without receiving a dividend, or
- (b) the avoidance of tax.

(3) The vendor and, if the shares are held through a nominee, the nominee, must be resident and ordinarily resident in the United Kingdom in the year of assessment in which the purchase is made and for this purpose -

- (a) The residence and ordinary residence of personal representatives shall be taken as those of the deceased at his death and in the case of trustees shall be determined by applying Section 52 of the Capital Gains Act 1979.
- (b) References to ordinary residence shall be disregarded in the case of a company.

(4) The vendor must have owned the shares throughout the five years ending with the purchase - or three years where sub-section (5) applies - but if they were transferred to him by his spouse when they were living together, and they are living together at the time of the purchase (or the spouse is dead), the spouse's period of ownership shall be treated as the vendor's.

(5) Where the vendor acquired the shares under the will or on the intestacy of a deceased owner, or as personal representative of a deceased owner, the period of ownership of the deceased (and of his personal representative if other than the vendor) shall be treated as the vendor's.

(6) The purchase must substantially reduce the vendor's interest as provided by Schedule 9 to this Act, and the identification and other supplementary provisions of that Schedule shall also have effect.

(7) A payment falling within sub-section (1) is not a distribution if, after allowing for any capital gains tax paid in respect of the purchase, the payment is wholly or substantially applied within two years of a death in discharging a

capital transfer tax liability of the payee's charged on that death, but this sub-section shall not apply to the extent that the liability could have been discharged without undue hardship otherwise than through the purchase or a similar purchase by that or another company within sub-section (1).

SCHEDULE 9

Section 53. PURCHASE OF OWN SHARES BY UNQUOTED TRADING COMPANY

1. In applying sub-sections (4) and (5), shares other than those allotted for payment, or comprising capital to which Section 34 of the Finance (No. 2) Act 1975 (stock dividends) applies, and which for capital gains tax purposes would be identified with earlier holdings under Chapter II of Part IV of the Capital Gains Tax Act 1979 (reorganisation of share capital, conversion of securities etc.) shall be so identified. Subject thereto, shares acquired earlier shall be taken into account before shares acquired later and disposals shall be on a last in first out basis.

2.-(1) The condition that the vendor's interest must be substantially reduced shall not be satisfied unless the percentage of the company's issued share capital which he owned immediately before the purchase, and also the percentage of the company's notional profits to which he would have been entitled on a full distribution immediately before the purchase, have been reduced by at least one quarter.

- (2) For the purposes of this paragraph;

- (a) A person entitled to periodic profit distributions based on fixed rates or amounts shall be regarded as entitled to the maximum payable for one year;
- (b) A company's notional profits shall comprise the aggregate of;
 - (i) the sum of £100;
 - (ii) the total amounts to which persons are entitled under sub-paragraph (a); and
 - (iii) the "profits available for distribution" for the purpose of Part III of the Companies Act 1980 or, in calculating the notional profits before the purchase, the total payable by the company on the purchase and any contemporaneous purchase if greater.

- (3) References in this paragraph to entitlement are references to beneficial entitlement except in the case of trustees and personal representatives.

3. If immediately after the purchase any associate of the vendor owns shares of the company the combined interests of the vendor and his associates must have been substantially reduced and the provisions of paragraph 2 shall be applied as though the vendor's interest included those of this associates.

53. Purchase of own shares by unquoted trading company

(1) References in the Corporation Tax Acts to distributions of a company shall not include references to a payment made by a company on the redemption, repayment or purchase of its own shares if -

- (a) the company is an unquoted company and either a trading company or the holding company of a trading group; and
- (b) the redemption, repayment or purchase is made wholly or mainly for the purpose of benefiting a trade carried on by the company or by any of its 75 per cent. subsidiaries, and does not form part of a scheme or arrangement the main purpose or one of the main purposes of which is -
 - (i) to enable the owner of the shares to participate in the profits of the company without receiving a dividend, or
 - (ii) the avoidance of tax; and
- (c) the conditions in paragraphs 1 to 9 of Schedule 9 to this Act, so far as applicable, are satisfied in relation to the owner of the shares.

(2) References in the Corporation Tax Acts to distributions of a company shall not include references to a payment made by a company on the redemption, repayment or purchase of its own shares if -

- (a) the company is within subsection (1) (a) above, and
- (b) the whole or substantially the whole of the payment (apart from any sum applied in paying capital gains tax charged on the redemption, repayment or purchase) is applied by the person to whom it is made in discharging a liability of his for capital transfer tax charged on a death, and is so applied within the period of two years after the death;

but this subsection shall not apply to the extent that the liability could without undue hardship have been discharged otherwise than through the redemption, repayment or purchase of shares in the company or another company within subsection (1) (a) above.

(3) Schedule 9 to this Act shall have effect for supplementing this section; and in that Schedule "the purchase" means the redemption, repayment or purchase referred to in subsection (1) above, and "the vendor" means the owner of the shares at the time it is made.

(4) This section has effect in relation to payments made on or after 6th April 1982.

SCHEDULE 9

PURCHASE OF OWN SHARES BY UNQUOTED TRADING COMPANY

Conditions for application of section 53 (1)

- 1.-(1) The vendor must be resident and ordinarily resident in the United Kingdom in the year of assessment in which the purchase is made and if the shares are held through a nominee the nominee must also be so resident and ordinarily resident.
 - (2) The residence and ordinary residence of trustees shall be determined for the purposes of this paragraph as they are determined under section 52 of the Capital Gains Tax Act 1979 for the purposes of that Act.
 - (3) The residence and ordinary residence of personal representatives shall be taken for the purposes of this paragraph to be the same as the residence and ordinary residence of the deceased immediately before his death.
 - (4) The references in this paragraph to a person's ordinary residence shall be disregarded in the case of a company.
- 2.-(1) The shares must have been owned by the vendor throughout the period of five years ending with the date of the purchase.
 - (2) If at any time during that period the shares were transferred to the vendor by a person who was then his spouse living with him then, unless that person is alive at the date of the purchase but is no longer the vendor's spouse living with him, any period during which the shares were owned by that person shall be treated for the purposes of sub-paragraph (1) above as a period of ownership by the vendor.
 - (3) Where the vendor became entitled to the shares under the will or on the intestacy of a previous owner -
 - (a) any period during which the shares were owned by the previous owner or his personal representatives shall be treated for the purposes of sub-paragraph (1) above as a period of ownership by the vendor, and
 - (b) that sub-paragraph shall have effect as if it referred to three years instead of five.
 - (4) Where the vendor is a personal representative of a deceased owner -
 - (a) any period during which the shares were owned by the deceased shall be treated for the purposes of sub-paragraph (1) above as a period of ownership by the vendor, and
 - (b) that sub-paragraph shall have effect as if it referred to three years instead of five.
 - (5) In determining whether the condition in this paragraph is satisfied in a case where the vendor acquired shares of the same class at different times -

(a) shares acquired earlier shall be taken into account before shares later, and

(b) any previous disposal by him of shares of that class shall be assumed to be a disposal of shares acquired later rather than of shares acquired earlier.

(6) If for the purposes of capital gains tax the time when shares were acquired would be determined under any provision of Chapter II of Part IV of the Capital Gains Tax Act 1979 (reorganisation of share capital, conversion of securities etc.) then, subject to sub-paragraph (7) below, it shall be determined in the same way for the purposes of this paragraph.

(7) Sub-paragraph (6) above shall not apply to shares allotted for payment or comprised in share capital to which section 34 of the Finance (No 2) Act 1975 (stock dividends) applies.

3.-(1) If immediately after the purchase the vendor owns shares of the company, then, subject to paragraph 9 below, his interest as a shareholder must be substantially reduced.

(2) Subject to sub-paragraph (3) below the vendor's interest as a shareholder shall be taken to be substantially reduced if and only if the total nominal value of the shares owned by him immediately after the purchase, expressed as a fraction of the issued share capital of the company at that time, does not exceed 75 per cent. of the corresponding fraction immediately before the purchase.

(3) The vendor's interest as a shareholder shall not be taken to be substantially reduced where -

(a) he would, if the company distributed all its profits available for distribution immediately after the purchase, be entitled to a share of those profits, and

(b) that share, expressed as a fraction of the total of those profits, exceeds 75 per cent. of the corresponding fraction immediately before the purchase.

(4) In determining for the purposes of sub-paragraph (3) above the division of profits among the persons entitled to them, a person entitled to periodic distribution calculated by reference to fixed rates or amounts shall be regarded as entitled to a distribution of the amount or maximum amount to which he would be entitled for a year.

(5) In sub-paragraph (3) above "profits available for distribution" has the same meaning as it has for the purposes of Part III of the Companies Act 1980, but subject to sub-paragraph (6) below.

(6) For the purposes of sub-paragraph (3) above the amount of the profits

available for distribution (whether immediately before or immediately after the purchase) shall be treated as increased -

(a) in the case of every company, by £100, and

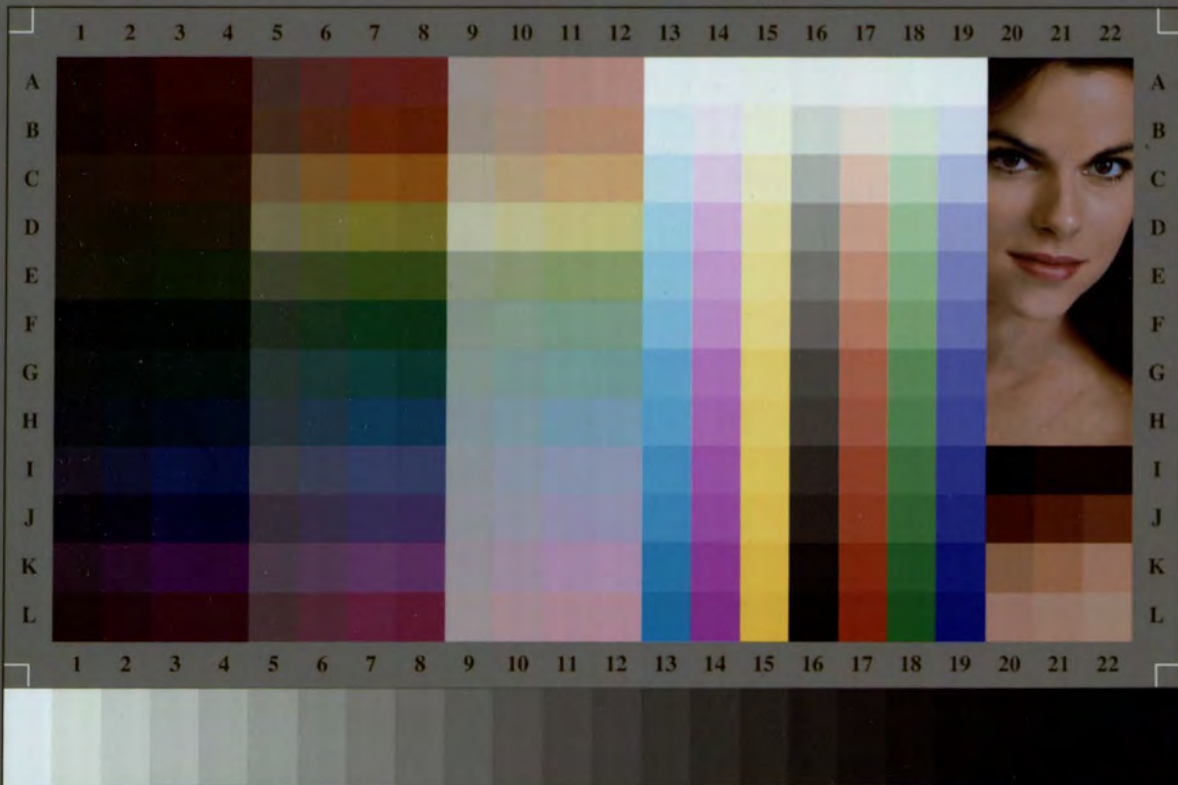
(b) in the case of a company from which any person is entitled to periodic distributions of the kind mentioned in sub-paragraph (4) above, by a further amount equal to that required to make the distribution to which he is entitled in accordance with that sub-paragraph;

and where the aggregate of the sums payable by the company on the purchase and on any contemporaneous redemption, repayment or purchase of other shares of the company exceeds the amount of the profits available for distribution immediately before the purchase, that amount shall be treated as further increased by an amount equal to the excess.

(7) References in this paragraph to entitlement are, except in the case of trustees and personal representatives, references to beneficial entitlement.

4.-(1) If immediately after the purchase any associate of the vendor owns shares of the company then, subject to paragraph 9 below, the combined interests as shareholders of the vendor and his associates must be substantially reduced.

(2) The question whether the combined interests as shareholders of the vendor and his associates are substantially reduced shall be determined in the same way as is (under paragraph 3 above) the question whether a vendor's interest as a shareholder is substantially reduced, except that the vendor shall be assumed to have the interests of his associate as well as his own.



IT8.7/2-1993
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