



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 6000

PRIME MINISTER

BANK TAX AND DERV DUTY CONCESSIONS

I have been considering possible changes to the bank tax in the light of the criticisms which have been made.

2. On our side most of the criticisms have focused on the precedent of raising extra taxation from a successful sector, and the alleged retrospection. There is nothing we can do on that. But there has also been criticism - right across the House - that in practice, for a variety of reasons, the tax bears particularly heavily on some of the smaller and medium-size banks. When the clause was debated on 12 May, we undertook to look again at their position.

3. After careful consideration, I have decided that it would be right to provide some help for these banks. I propose increasing the exempt slice of deposits from £10m to £15m, and reducing the charge on the first £200m deposits from 2½ to 2 per cent. These changes would provide some benefit for every bank - and so should be acceptable to the big clearing banks - but they will give proportionately more help to the small and medium-size banks.

4. The bank tax schedule will be taken in Standing Committee tomorrow (Thursday) and - if you agree - I see advantage in the Financial Secretary announcing the proposed changes then. He will also be mentioning that the Government have been having discussions with National Girobank, in their role as shareholders, about the effect of the tax on Girobank and how they might help with its capital requirements.

/These changes

Prime Minister 18B 1

The Chancellor wishes the Financial Secretary to announce a minor concession on bank profits this afternoon - to help the smaller banks. He has

also decided to go firm on his proposals for making up the DERV loss - i.e. 3p on cigarettes and £20m from gaming and betting. (You

had the Chancellor that he should have the final say on this.)\*

12.

25/6

X to be announced later.

Agreed  
mt.



5. These changes will cost some £25m - but I do not think we can do less. Because this is a new tax, there has always been some uncertainty about the precise yield. I think we can reasonably say, therefore, that, notwithstanding these changes, we see no reason to change the round figure estimate of £400m which we gave at the time of the Budget. On that basis, I would not seek to recover elsewhere the cost of these concessions.

6. I am however committed to recouping the revenue lost as a result of the derv duty reduction I announced on 30 April. I told the House at the time that the probable cost of the duty reduction would be £85 million in the current year. Since then I have established that some £10 million or so will be saved through lower levels of bus fuel grants at the new duty rates. The appropriate revenue target is therefore £75 million.

*Policy A*

7. I should like to proceed as follows. As foreshadowed in my minute to you of 19 May, I propose to secure an additional £20 million in 1981-82 from betting and gaming. I can achieve this by raising the "off course" rates of general betting duty from 7½ per cent to 8 per cent and the bingo duty from 7½ per cent to 10 per cent and by ad hoc increases in the gaming machine licence duty. The bulk of the additional revenue however - some £55 millions - I conclude will have to come from tobacco. This means a 3p increase on a packet of cigarettes, with commensurate increases on other tobacco products. I have considered carefully whether it would be possible to limit the increase on cigarettes to 2p. But this would reduce the revenue yield by almost £20 million and - especially in view of the concessions I am now making to the banks - I believe we should lose credibility if we were to announce proposals which fell well short of my declared intention to cover the cost of the derv duty reduction. As I explained in the course of a talk we had early this month, there is no other practicable alternative which could bridge the revenue gap.

/I shall



8. I shall be putting to the Leader of the House and the Chief Whip shortly proposals for the timing and implementation of the derd duty reduction and the recoupment measures.

9. I am copying this minute to Francis Pym and Michael Jopling.

(G.H.)

24 June 1981

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19

10 DOWNING STREET

*can pd*

*From the Private Secretary*

25 June 1981

*Dear Mr,*

BANK TAX AND DERV DUTY CONCESSIONS

The Prime Minister has considered the Chancellor of the Exchequer's minute of 24 June.

This is just to confirm that she is content with his proposal that the Financial Secretary should announce later today a minor concession on the bank profits tax. She is also content with the decision that he has reached on how the loss of derv duty should be recouped; she notes that the Chancellor will be putting proposals to the Leader of the House and the Chief Whip on the timing and implementation of the recoupment measures.

I am sending a copy of this letter to Brian Norbury (Ministry of Defence) and Murdo Maclean (Chief Whip's Office).

*ms w.*  
*Tim Laker.*

John Wiggins, Esq.,  
HM Treasury.