

CC Mr. Walters  
Mr. Wolfson

BUDGET CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

PRIME MINISTER

TAXATION OF FRINGE BENEFITS

You will wish to know what I propose to do in this year's Budget about company cars and other fringe benefits.

2. First, company cars. They continue to be provided on an increasing scale, and the latest figures suggest that they are now available for some 65 per cent of higher paid employees and directors. As I pointed out last year (my minute of 12 March) the scales by which the benefit is measured for tax purposes are barely one-third of the estimated cost to a private individual of running his own car. But, as we agreed last year, there can be no significant change until we are able to make a further reduction in the income tax burden. I therefore propose, as last year, to make a 20 per cent increase in the scales, which will at least ensure that the scales are not reduced in real terms. Motoring costs have risen by broadly this amount over the last year. The change which I announced in last year's Budget comes into effect from 6 April of this year; and the 20 per cent increase which I shall be announcing in this year's Budget will take effect from April 1982. For a middle manager with a car in the 1300cc to 1800cc range, typically a Ford Cortina, this will mean only 35p a week in extra tax, assuming that he pays at the basic rate. As last year, the change would be made by Order rather than in the Finance Bill.

3. There is one other change which I propose for the users of company cars. Last year I made a change in the rules governing the benefit of company cars which have little or no business use. I proposed that, with effect from 6 April this year, cars

*I believe the reason for the change (at the end of 44) will give more problems, not*

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whose business use was less than 1,000 miles a year should be subjected to a higher level of tax ( $1\frac{1}{2}$  x the scale figure). The 1,000 miles was generally regarded by commentators as on the low side, since it would mean that the higher charge could be avoided simply by a single business trip, say, from London to Aberdeen and back. I therefore propose to raise the mileage from 1,000 to 2,500 with effect from this April.

4. I also propose to correct an anomaly, whereby the value of season tickets provided by employers, and of goods and services purchased with company credit cards, is taxable as a benefit in the hands of higher paid employees and directors, but not of lower paid employees. There is clearly a strong case for taxing these, like other vouchers provided by the employer which are really the equivalent of cash, in the hands of all employees. The provision of season tickets, in particular, is a growing abuse, and bringing them into tax might meet some of the complaints from commuters who pay for their own travel costs and get no tax relief for it.

5. There is one measure of relief which I propose in relation to benefits in kind. The provision of medical insurance by employers for their employees was made taxable in 1975 for all employees and re-enacted in 1976. We promised in our manifesto to restore tax relief for employer/employee medical insurance. I propose therefore to relieve lower paid employees of tax on this benefit, so leaving it taxable only in the hands of the higher paid and directors, as it was before the previous Government extended it.

6. Finally, I do not propose to abolish the threshold which distinguishes higher paid and lower paid employees for this purpose. You may recall that this was the subject of a consultative document last year, and from the response of that document it is clear that abolition of the threshold would be



generally unwelcome. When we are able to reduce income tax further, it may be appropriate to review the matter again. So the threshold will remain at its present level of £8,500. Another suggestion made in that consultative document was that the method of taxing fringe benefits should be changed so that instead of being taken into account in the PAYE code employers should include the value of them in taxable pay. This would result in a staff saving to the Revenue of some 200. I propose to make this change, in relation to company cars whose benefit is readily quantifiable, with effect from April 1982.

7. I shall be informing Patrick Jenkin of my proposals on medical insurance, and Keith Joseph and Norman Fowler of my proposals on company cars and season tickets.

A handwritten signature in dark ink, appearing to be 'G.H.' with a stylized flourish.

(G.H.)

3 February 1981