



*EC Daquid.*  
*✓ CC D. Wright CO*

PRIME MINISTER

INCOME TAX RELIEFS FOR START-UPS

The Chancellor's minute to you, reporting the meeting he had with the Secretary of State for the Environment and me last Thursday, proposes to defer any tax reliefs for start-ups and restrict his "enterprise package" to the relatively minor and technical measures he had already described.

I think the meeting on Thursday made it quite plain that the Chancellor resists the start-up scheme not for technical reasons, but because:

- (a) he thinks it will be less dramatic in its appearance and effect than I and our colleagues in the E Committee thought; and
- (b) progress on working out the details has now been left so late that it could be accommodated in the Finance Bill only at the cost of deferring other desirable - but unspecified - provisions.

The Chancellor concedes, as I understand it, that the "narrow" scheme would not give rise to unacceptable avoidance and its cost is manageable. He does not agree, however, that it is politically acceptable. I dissent from him in that judgement, as did our colleagues in the E Committee.

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The Chancellor's objections to the narrow scheme are that it discriminates against existing businesses, against expansions (including "start-ups" by existing entrepreneurs in a similar field, which amount to expansions) and against the self-employed. The distinction between new and existing (or between new and expanding) is inherent in any incentive for start-ups: I believe that this discrimination is politically acceptable because of the importance, both real and symbolic, of increasing the number of start-ups. The distinction between the self-employed and incorporated is, as I think the Chancellor accepted, quite defensible - they operate under different regimes, and the self-employed already have some relevant advantages over the incorporated.

As to the value of the narrow scheme, I am in no doubt of it whatever. It would halve the equity capital the intending entrepreneur needs to find to set up in business (by allowing him to claw back income tax payments in the preceding three years or so), and thus double his rate of return, to make it possible to avoid the undercapitalisation which is the primary cause of early failure. Those are straight-forward, readily-understood and accurately-directed incentives and they will have an effect far greater than anything else in prospect.

Finally, there is an over-riding need to include some positive measure in the Budget which will stimulate enterprise at a dark moment. The Chancellor's suggestion that the contingent

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losses scheme; the ending of apportionment of close companies' trading income, and a first move on demergers add up to "a very significant political dimension" is not a judgement that I share.

Notwithstanding the lateness of the hour, I believe there is still time to include this measure (perhaps if necessary introducing the actual clauses at Report stage); that it would be not only defensible but widely welcomed and dynamic in effect; and that we have an over-riding need to include such a measure in the Budget. I still hope, therefore, to take the matter to the E Committee next week.

I am sending copies of this minute to the Chancellor of the Exchequer, the Secretaries of State for Trade and the Environment, to Sir Kenneth Berrill and to John Hoskyns.

*The Chancellor's arguments certainly have some weight but I really don't think that the scheme should be rejected without balancing the strong arguments still in favour.*

K J

6 February 1980