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PRIME MINISTERCOMPANY CARS AND OTHER FRINGE BENEFITS

This is the last of the notes I promised to send you when we discussed the Budget on 29 February. The first part explains the proposals I have in mind for some modest increase in the taxation of fringe benefits. The second deals with the so-called "Dips" scheme for stock relief.

Fringe Benefits

2. I start with the tax treatment of company cars provided as a benefit for employees. Of the present 14½ million cars on the road, 4½ million are owned by companies and 10 million are in private ownership. 70 per cent of all new car registrations relate to company cars. Of the 4½ million company cars, hardly any are thought to be for exclusive business use. Almost all of those with a company car enjoy the benefit of having it also for private use. But through successive years of neglect, the scale of the benefit charged to income tax has fallen far behind any reasonable measure. The present figures are about 1/3 of the estimated cost (in June 1979) to a private individual of running his own car based on the AAs valuation, and they barely cover the current cost of tax, insurance and maintenance calculated on the same basis. For example the scale figure

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for a car in the 1300-1800cc range is now £250 a year as against the AA figure of £695 last June (the present figure would, of course, be higher). For bigger cars the disparity would be substantially greater between the scale figure and a realistic estimate of the cost. Consequently, those with company cars are shielded from the rapid increases in motoring costs faced by the other 10 million car owners; and these 10 million - not to mention those who cannot afford to run a car at all - naturally feel strongly about the continued leniency of the tax treatment of company cars. Moreover, the more the scale falls behind, the greater is the incentive for companies to provide employees with cars for purely personal use. That goes against our stated objectives.

3. Whilst I recognise the difficulties of moving in this area, this is not a situation which, in fairness, I think we should allow to continue. Despite your reservations, and those of the Chief Whip, I believe there is another side to the political case - in the form of criticism of unfairness from the large majority of people who do not have company cars. For this reason I believe there is a good case for taking some action, provided it is well-balanced and can be clearly defended.

4. What I propose is no more than to stop the problem getting worse. I am planning no increase in the scale of taxable car benefits this coming year. The changes I should like to announce would only take effect in a year's time from April 1981. I would increase the scales in such a way

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that there would be a 20% increase in the car benefits charged to tax. By April 1981, those benefits will have remained unchanged for three years. Meanwhile the cost of motoring has increased by more than 20% in the last two years and is still rising. A middle manager with a car in the 1300 to 1800 cc range, typically a Ford Cortina, would pay less than 30p a week in extra tax - no more than £15 a year - assuming he pays income tax at the 30% basic rate. My proposal would still fall a long way short of restoring the real value of the tax, but is something I believe we could defend. The change would be made by Order rather than in the Finance Bill.

5. In one respect I propose to take action that will help some company car users. Those who use their company cars largely for business are taxed on only half the scale amount. The qualifying mileage for this relief is at present 25,000 a year. To meet legitimate complaints that this is too high, I propose at the same time to reduce the qualifying mileage to 18,000 miles a year. This too would take effect in 1981-82.

6. For this coming year I am proposing to introduce changes in two other fringe benefits. First, on beneficial loans, I am increasing from 9% to 15% the rate of interest by which the taxable benefit from an interest-free loan is measured, to keep in line with interest rates generally. I am at the same time increasing from £50 to £200 the de minimis limit of notional interest below which no charge on the benefit is raised. This will enable modest interest-free loans, such as those to allow employees to purchase season tickets, to continue to escape tax.

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7. Second, I propose to act to discourage the practice of providing as a benefit for employees the use of items such as suits of clothing and television sets for a period, at the end of which they are acquired by the employee for a derisory sum. I shall increase from 10 to 20% the annual value taken as the measure of this benefit and impose a more effective tax charge when the asset is ultimately acquired by the employee.

8. You will see that I am not singling out cars for specially harsh treatment. On the contrary, some might say that I am not doing enough on cars, especially since the modest uprating will not take place for another year - though I have to announce the change this year so that the necessary preparatory work can be completed in good time. I hope, on reflection, you will feel that the package to be announced on Budget Day is a reasonable compromise. It is, of course, only a beginning in rolling back the inducements to widen the coverage of perks. The treatment of suits, TV sets and so on, is clearly sensible, and should provoke little, if any, opposition. But there is no question of any significant move on fringe benefits until we can reduce income tax again generally.

Stock relief: dips

9. I also promised to send you a note explaining how a "dips" scheme would assist firms, particularly in manufacturing, that were having to de-stock as a result of the steel strike.

... This is enclosed.

It looks very interesting. It is really a death in really a debitment. I should have used the word "de-stock" we could have used the word of a complete - I should have used the word "de-stock" with a complete allowance for stock relief after the year. I think more was promised in 1964.



10. I have considered whether, at the same time, I could directly tackle the Tesco abuse, but I have had to conclude, essentially for the reasons given in paragraph 11 of the attached note, that this is simply not possible this year. But the dips scheme does not apply where stocks are increasing and so does not aggravate the Tesco situation.

11. There has been much pressure for a dips scheme of this sort in the representations I have received on the Budget, including those from the CBI, and I am convinced that it is something which is urgently needed in present circumstances.

G. H. Jones
for (G.H.)

12 March 1980

(approved by the Chancellor & signed in
his absence)