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PRIME MINISTER

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INCOME TAX RELIEFS FOR EQUITY INVESTMENT

I had a further talk last Thursday evening with the Secretaries of State for Industry and the Environment.

2. We all want, if we can, to find a workable scheme of income tax relief for equity investment. We spent a lot of time on this in Opposition and officials have put in a lot more effort over the past six months.
3. Sadly, however, no-one has yet produced a scheme which I could defend in the House of Commons.
4. We spent some time on Thursday discussing the so-called "narrow" scheme described by the Committee of officials which looked at fiscal aspects of the strategy exercise.
5. I do not believe that this is capable of doing the job for which it is billed, that is revitalising the small business sector. The form of the scheme would be complex. The relief itself would be restricted to a very small part of the business sector and would deny relief in several equally important cases - the man who wanted to develop his own business, using his own capital or capital from "Aunt Agatha"; the successful entrepreneur who wants to branch out into a new company, in the same broad line of business; and the self-employed. There are good economic and industrial arguments why the "narrow" scheme should not exclude these cases, but there turned out to be insuperable technical tax reasons for doing so. Such schemes would, for example,

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be open to easy abuse, through the circulation and re-circulation of money between the business and the investor. Put at its simplest, such schemes would encourage virtually every business to reconstitute itself as a "new" business so as to be able to take advantage of a new "tax avoidance charter". Nobody has yet been able to design a scheme which would be proof against this kind of thing.

6. Even in this narrow form the scheme would be expensive - officials' best guess is £100m - and on the most optimistic assumptions the Exchequer cost could be several times the net addition to investment. To breach the conditions proposed for the "narrow" scheme could make the thing unworkable, and could entail an Exchequer cost of several hundred millions of pounds.

7. An additional factor, which I find particularly tiresome, is that the scheme would probably require an incredible twenty to twenty-five pages of legislation. There would be all manner of technical problems, for example in monitoring the re-circulation of existing capital through new companies for the purpose of obtaining tax relief.

8. My conclusion is that I cannot include a scheme of income tax relief for equity investment in this year's Budget; but I have asked my officials to resume their efforts in the FASE group to devise a scheme that is reasonably workable and cost effective. The Secretary of State for the Environment brought forward some new ideas on Thursday evening. As I said on Thursday, I am not sure that these are an answer to our problems; but we have arranged for my officials to discuss these ideas direct with him.

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9. Meanwhile, I propose to press ahead with the enterprise package which I outlined in my letter to the Secretary of State for Industry of 21st January 1980. Some of these are minor in broad political terms, though they have been pressed on successive Governments for years by industry or the professions. I believe others will have a very significant political dimension - the ending of the apportionment of close companies' trading income, the scheme which has been known so far as the losses scheme, but which I propose we announce as the "venture capital" scheme, and a first move on demergers.

10. I feel sure that this is something which we ought to sort out between ourselves, and on which we should not need to trouble E Committee again.

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

G.H.

(G.H.)

5 February, 1980

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