

PRIME MINISTER

cc Mr. Wolfson  
Mr. Gow

Meeting with the Chancellor

There are three topics which I think you might discuss with the Chancellor tomorrow -

- ✓ (i) Perks;
- (ii) Chancellor's speech on Saturday;
- (iii) Appointments (new chief economic adviser, new Chairman of the Revenue, and second Government Director for BP).

Perks

I understand that you intend to raise this in Cabinet; you will want, if possible, to agree a line with the Chancellor in advance.

There are two separate, though related, issues -

- (i) the taxation of perks
- (ii) whether we should do anything to encourage businesses to reduce the perks which they provide, and pay cash instead.

There is a good case in principle for taxing perks on the basis of their real value. The issue is one of presentation and timing. You were understandably annoyed by the Revenue's consultation document (flag A) on car and petrol benefits. If looked at in isolation from taxation generally, the argument in favour of raising the company car scales and taxing the free petrol which executives receive is strong indeed. The present system is inequitable, is costly in terms of revenue foregone, and encourages the uneconomic use of petrol. The industrial argument - that the present system helps to protect our motor industry - is a good deal weaker now that business purchases make up 70% of all car purchases and increasingly involve imported vehicles. But any move must take place - and be seen to take place - as part of our overall tax strategy. Any decision to make changes before the

/next Budget

next Budget, even if only implemented in 1980/81, will be taken as a negation of this year's tax cuts. It is also questionable whether an Order in the autumn would get through the House.

Notwithstanding your conversation with Mr. Lawson last week, the Treasury may still press for an early Order at least to raise the car scales in line with inflation since they were last raised with effect from April 1978. For an executive on £9,000 p.a. with a medium-sized car this would raise his tax bill in 1980/81 by about £35 - a not insignificant amount against the £200-300 income tax benefit which he will have received from this year's Budget. Alternatively, the Treasury may press for an early Order affecting just high income earners.

My own view is that there should be no action before the next Finance Bill. An early statement to this effect would be desirable. Angus Maude has suggested this should be put out tomorrow. However, John Methven (see David Wolfson's note at Flag B) is anxious that we avoid a panic retreat. He suggests that the Chancellor could clarify in response to a CBI letter next week: this would then be seen as a response to consultation with the main employer body. (At Flag F is a letter from the Institute of Directors, highly critical of the consultation document. I will provide you with a draft reply in the light of your discussion with the Chancellor.)

See also  
Ian Gow's  
note at  
Flag G.

As regards the amount of perks provided by businesses, you were sympathetic to the idea of action to reduce them. The CBI were considering taking this up with their members, and Departments have been looking at the perks provided in nationalised industries.

Apart from the tax avoidance aspect, the arguments against perks are that they are divisive and cause immobility - for example, when mortgages are subsidised. On the other hand, it can be argued that if businesses want to pay in kind, and their employees like it, they should be left to do so.

Perks will continue to grow in the private sector until they are properly taxed. Rather than exhort companies to reduce their perks, we need to concentrate on getting the tax arrangements right (subject to the timing/presentational points mentioned above).

/ We could

We could put pressure on the nationalised industries to reduce their perks before we move on taxation. On the whole, I think it would be better not to. Any move in this direction would make us open to charges of discrimination; and the abolition of certain perks (e.g. concessionary fares for BA employees, free coal for miners) would be contentious.

#### Chancellor's Speech

You have seen John Hoskyns' draft. The main question is whether it is perhaps too "confrontational". Mr. Prior ought to have a chance to comment.

Additional points which the speech might cover -

- (i) the PO computer operators strike which will cost the taxpayer £75m in interest charges on unpaid bills.
- (ii) shipbuilding. We have been getting a bad press on the BS closure programme. The unions are making the running because the public don't understand that
  - (a) the Government has been paying the wages of our shipyard workers;
  - (b) there are no orders;
  - (c) other countries have contracted their yards, while we have not.
- (iii) reaffirm our monetary/fiscal stance - especially relevant as the new pay round gets under way.

#### Appointments

- (i) Chief Economic Adviser - see Ian Bancroft's advice at Flag C.
- (ii) Second director for BP - see Flag D.
- (iii) Chairman of the Revenue - see Flag E. Ian Bancroft is considering other names and will report back. But you will want to know the Chancellor's views (and Lord Cockfield's who will be standing by).