

CONFIDENTIAL



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tea pd

10 DOWNING STREET

From the Private Secretary

26 March 1982

TAXATION OF BENEFITS IN KIND - CARS AND PETROL

The Prime Minister is grateful for the Chancellor's minute of 24 March on the taxation of benefits in kind.

The Prime Minister is content with the Chancellor's proposals.

Miss Jill Rutter,
HM Treasury.



MS

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

TAXATION OF BENEFITS IN KIND - CARS AND PETROL

In my minutes of 17 and 24 November 1981 I told you of my decisions to postpone for one year the proposed change in the method by which tax on these benefits is collected and the introduction of a scale charge for free petrol.

2. The Inland Revenue have now carried out further extensive consultations with employers' representatives. They looked to see whether our aim of reducing the number of civil servants engaged in this work could be reconciled with the need to avoid placing an undue burden on employers, many of whom were strongly opposed to our original proposals. It has become clear that we cannot devise proposals, even if we simplify them considerably, which will satisfy the employers. Bodies such as the Institute of Directors and the Association of British Chambers of Commerce have continued to emphasise the problems employers could have faced in taking on this task. So, in order to avoid imposing undue additional administrative burdens on employers, I have decided that we must withdraw the proposal to require employers to apply PAYE directly to these benefits. The Finance Bill will be amended accordingly.

3. However, I have decided to proceed from 1983-84 with the introduction of the scale charge on free petrol, although that will involve additional staff costs for the Inland Revenue. We could not go on tolerating this increasingly widespread abuse. The petrol scale will follow the first three points of the car scale.

4. This decision is certainly a setback in our efforts to cut civil service numbers. But, unlike the proposal for the deduction of mortgage interest relief at source, the savings in the public



sector could only have been achieved at the expense of imposing much greater additional costs on private employers. The numbers (some 150 staff savings lost, some 150 additional staff needed to deal with petrol) are small in comparison to MIRAS. We shall look elsewhere to find offsetting savings.

5. I propose to announce these decisions in a written answer on Friday (26 March) to coincide with the publication of the Finance Bill. The Bill as published has, for technical reasons, to reflect the terms of the Budget Resolution passed on 15 March, which predates my final decisions on all this and simply provides for postponement. The changes will now be introduced by amendment at Committee Stage.

6. At the same time I propose to announce for 1983-84 a 20 per cent increase in the car benefit scales, in line with the increases we have made in each of the last two years. Nonetheless this is still far short of the sort of increase that would be needed to bring the scales into line with the true value to the individual of having a car available. The new figures will be the subject of a Treasury Order, again following precedent. The main scales would then become:-

	<u>1983-84</u>	<u>(1982-83)</u>
1,300 cc or less	£325	(£270)
1,301 to 1,800 cc	£425	(£360)
Over 1,800 cc	£650	(£540)
£14,000 to £21,000 (£11,500 to £17,300)	£950	(£780)
Over £21,000 (£17,300)	£1500	(£1260)

The typical Cortina driver liable at the basic rate will pay tax in 1983-84 of £10.63 per month (compared with £9 in 1982-83) and if he gets free petrol too, then that figure will be doubled. If he uses his car 'predominantly' for business purposes (i.e. more than 18,000 miles a year) both the car scale and the petrol scale will be halved.



7. I believe that the withdrawal of the PAYE proposal will avoid further controversy in this area and that the proposals on the car and petrol scales will be generally seen as fair.

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

(G.H.)

24 March 1982